

## War of Ideas

- There is an ideological war between the French and the English.
- You will be surprised to learn that most conservatives side with the French.

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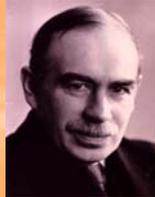
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## War of Ideas

- The French economist is J.B. Say.
- The English economist is John Maynard Keynes.



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## Say's Law



Tout travail crée  
sa propre  
consommation

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## Ricardo traitor to the Crown

- Agreed with Say's law that "supply creates its own demand"
- And endorsed another French sounding idea

Laissez fair



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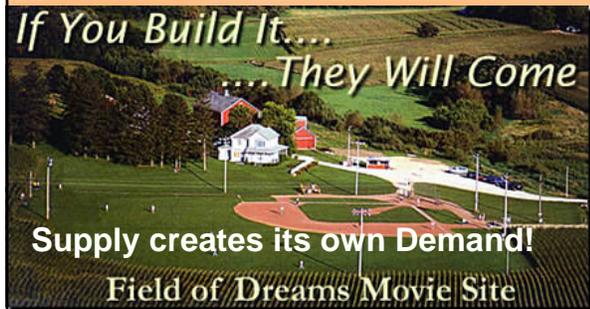
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## Say's Law at the movies



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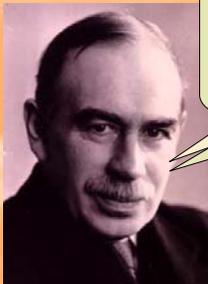
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## The challenger's reply



I beg to differ. Supply does not create demand. It is a tempestuous interaction and sometimes the opposite is true.

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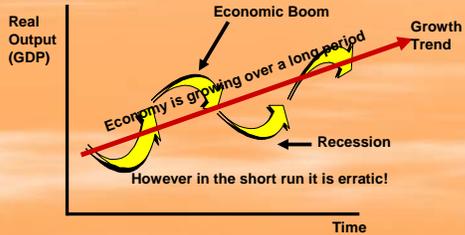
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## Business Cycle



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## Two ways of looking at the Business Cycle

- One could look at the long run
- One can consider the short run erratic behavior of the cycle as statistical noise
- One can argue leave it alone and applaud the market's long run performance.
- One could look at the short run
- One can argue the macro economy is unstable and can lead to undesirable outcomes
- One can argue some entity (government) has to step in and correct for this erratic behavior!

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## Laissez Faire

- This is the long run view
- These economist argue the market through **flexible prices and wages** will correct itself!
- They believe unsold goods and unemployed labor can and will emerge, but both would disappear as soon as people have time to adjust prices and wages.

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## Keynesian View

- Keynes asserted that a market driven economy is inherently unstable.
- He argued that expectation (psychology) of consumers and business is determined by the short run market performance.
- Although he believed in the long run performance of the market system, he argued that we are all dead in the long run!  
*(remember he was trying to save capitalism!)*

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## Proving his point

- Keynes attacked the idea of Say's by showing:
- Prices do **not** correct for the macroeconomic failure

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## The Historical Record 1900-1940



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## During the 1970s This Pattern Changed

- During the 1970s this pattern of high unemployment and falling prices did not hold.
- Leading to the revival of laissez faire schools of thought!

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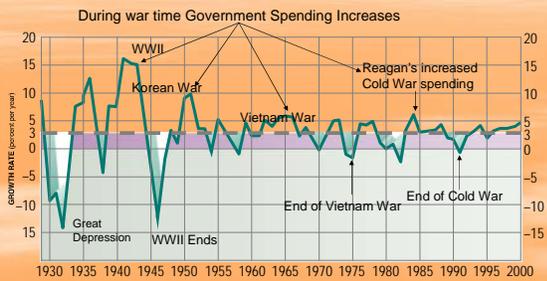
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## The Historical Record 1930-2000



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