Introduction

Keynesian economics is a theory that says the government should increase [demand](https://www.thebalance.com/what-is-demand-definition-explanation-effect-3305708) to boost growth. Keynesians believe consumer demand is the primary driving force in an economy.  As a result, the theory supports the [expansionary fiscal policy](https://www.thebalance.com/expansionary-fiscal-policy-purpose-examples-how-it-works-3305792). Its main tools are [government spending](https://www.thebalance.com/current-u-s-federal-government-spending-3305763) on infrastructure, unemployment benefits, and education. A drawback is that overdoing Keynesian policies increases [inflation](https://www.thebalance.com/what-is-inflation-how-it-s-measured-and-managed-3306170).

The British economist John Maynard Keynes developed this theory in the 1930s. The [Great Depression](https://www.thebalance.com/the-great-depression-of-1929-3306033) had defied all prior attempts to end it. [President Franklin D. Roosevelt](https://www.thebalance.com/fdr-economic-policies-and-accomplishments-3305557) used Keynesian economics to build his famous [New Deal](https://www.thebalance.com/fdr-and-the-new-deal-programs-timeline-did-it-work-3305598) program. In his first 100 days in office, FDR increased the debt by $3 billion to create 15 new agencies and laws.

﻿ ﻿ For example, the Works Progress Administration put 8.5 million people to work. The Civil Works Administration created 4 million new construction jobs.

Keynes described his premise in “The General Theory of Employment, Interest, and Money.” Published in February 1936, it was revolutionary.﻿ First, it argued that government spending was a critical factor driving [aggregate demand](https://www.thebalance.com/aggregate-demand-definition-formula-components-3305703). That meant an increase in spending would increase demand.

Keynesian Versus Classical Economic Theories

The classical economic theory promotes [laissez-faire policy](https://www.thebalance.com/laissez-faire-definition-4159781). It says the [free market](https://www.thebalance.com/market-economy-characteristics-examples-pros-cons-3305586) allows the laws of [supply](https://www.thebalance.com/aggregate-supply-what-it-is-how-it-works-3306216) and demand to self-regulate the business cycle. It argues that unfettered [capitalism](https://www.thebalance.com/capitalism-characteristics-examples-pros-cons-3305588) will create a productive market on its own. It will enable private entities to own the [factors of production](https://www.thebalance.com/factors-of-production-the-4-types-and-who-owns-them-4045262). These four factors are entrepreneurship, [capital goods](https://www.thebalance.com/capital-goods-examples-effect-on-economy-3306224), [natural resources](https://www.thebalance.com/how-natural-resources-boost-the-u-s-economy-3306228), and [labor](https://www.thebalance.com/labor-definition-types-and-how-it-affects-the-economy-3305859).﻿ In this theory, business owners use the most efficient practices to maximize [profit](https://www.thebalance.com/what-is-profit-and-how-does-it-work-3305878).﻿

Classical economic theory also advocates for a limited government. It should have a balanced budget and incur little debt. Government spending is dangerous because it crowds out private investment. But that only happens when the economy is not in a recession. In that case, government borrowing will compete with corporate bonds. The result is higher interest rates, which make borrowing more expensive. If deficit spending only occurs during a recession, it will not raise interest rates. For that reason, it also won't crowd out private investment.

## Criticism

[Supply-side](https://www.thebalance.com/supply-side-economics-does-it-work-3305786) economists say that increasing business growth, not consumer demand, will boost the economy. They agree the government has a role to play, but fiscal policy should target companies. They rely on tax cuts and deregulation.

Proponents of [trickle-down economics](https://www.thebalance.com/trickle-down-economics-theory-effect-does-it-work-3305572) say that all fiscal policy should benefit the wealthy. Since the wealthy are business owners, benefits to them will trickle down to everyone.

[Monetarists](https://www.thebalance.com/monetarism-and-how-it-works-3305866) claim that monetary policy is the real driver of the business cycle. Monetarists like Milton Friedman blame the Depression on high-interest rates. They believe the expansion of the money supply will end recessions and boost growth.

[Socialists](https://www.thebalance.com/socialism-types-pros-cons-examples-3305592) criticize Keynesianism because it doesn't go far enough. They believe the government should take a more active role to protect the common welfare. This role means owning some factors of production. Most socialist governments own the nation's energy, health care, and education services. ﻿

Even more critical are [communists](https://www.thebalance.com/communism-characteristics-pros-cons-examples-3305589). They believe the people, as represented by the government, should own everything. The government completely controls the economy.