Keynesian Economics and Federal Budgets Encyclopedia Article

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During the Great Depression of the 1930s British economist John Maynard Keynes (1883–1946) proposed that massive deficit spending (government spending more than it receives in revenues) could successfully end an economic downturn and produce prosperity. Under this plan, increased government spending would replace decreased consumer spending and private investment. Though President Franklin D. Roosevelt had greatly increased federal spending on various relief programs to ease the suffering of the American people, he was unwilling to pursue the amount of spending Keynes suggested. Roosevelt feared Keynes could be wrong and that economic problems could be worsened by large government debts.

World War II provided an occasion to test Keynes's ideas on the home front; despite his reluctance to increase federal spending, Roosevelt had no choice but to spend huge amounts on the war effort. As government spending rose from $9 billion in 1939 to $98 billion in 1945, unemployment fell sharply from 15 percent in 1940 to just over 1 percent in 1944. Incomes rose, industries boomed, and nearly all Americans enjoyed a higher standard of living. The success of deficit spending during the war made a lasting impression on the country and its leaders. Although some people remained critical of deficit spending, most Americans began to see it as an acceptable method of managing the home front economy.