

PARADOX OF THRIFT

Posted at: 02/05/2024

Context:

The paradox of savings, also known as the paradox of thrift, has garnered attention in recent discussions related to the economy.

Background:

The concept was popularized by British economist John Maynard Keynes in his 1936 book, *The General Theory of Employment, Interest, and Money*.

About PARADOX OF THRIFT :

The Paradox of Thrift suggests that when people save more money, especially during a recession, it can lead to a decrease in overall economic activity.

The idea is part of the under-consumption theories of the business cycle, which attribute economic downturns to weak consumption and high savings.

The Paradox of Thrift has the following implications for the economy:

1. **Reduced Consumption:** When a large percentage of the population saves more and consumes less, it leads to decreased consumer spending. During a recession, people tend to save more as a precautionary measure, fearing economic uncertainty. However, this collective behaviour can result in reduced overall consumption levels.
2. **Contraction of Output:** As consumption falls, businesses experience decreased demand for their goods and services. Consequently, they produce less, leading to a contraction of economic output. This decline in production affects both employers and employees, resulting in lower income for everyone.

