A key limitation of Keynesian economics is the lag time in enacting fiscal or monetary stimulus. Keynesians advocate discretionary policies to manage aggregate demand and stabilize the economy. However, Congressional disputes and bureaucratic delays can slow the rollout of spending programs or tax cuts. This reduces their countercyclical impact. The 2008-09 recession showed how long it can take to agree on and implement stimulus plans. By that point, the downturn was already well underway. Quicker automatic stabilizers like unemployment insurance therefore play a key role.

The Classical view favors letting markets self-correct over time. However, recessions can persist for years before equilibrium is restored, causing substantial hardship. The Great Depression is a case where allowing natural correction failed disastrously. Prices and wages did not adjust fast enough to return to full employment. Classicals argue that eventual adjustment will prevent overcorrection. But the social toll of long downturns makes passive policies unwise. More state intervention can shorten recovery periods.

I think both limitations are quite severe. Keynesian stimulus faces bureaucratic lags that dull its effectiveness. Meanwhile, the Classical patience with equilibrium can produce needless misery during long recessions. Intelligent policy takes the best of both views. Automatic stabilizers provide immediate relief, while targeted stimulus and monetary policy can hasten recovery. Allowing long slumps to deepen risks damage that self-correction cannot quickly undo. A balanced approach addresses these limitations.

References:

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