Lecture 5.5: Modern Liberalism vs. Classical/Neo Liberalism NOTES

<table>
<tr><th>John Maynard Keynes</th><th>FA Hayek</th></tr>
<tr><td colspan="2">-both are market economists
-"ends" (vision) are the same: avoid totalitarian dictatorships (fascism and communism)
-"means" are different (view on government)</td></tr>
<tr><td>-London School of Economics
-reluctant collectivist
-father of modern liberalism
-animal spirits (bull and the bear)
-malinvestments happen because of animal spirits (hubris in the boom mostly)
-people and the market are not always rational
Business cycle = boom and busts (govn't steering)
-short term ("in the long run, we are all dead")
-steer markets out of the boom and the bust
-boom = over confident = hubris = inflation = decreases spending power b/c wages lag behind buy on credit, a bubble is created, then the bubble bursts leading to a recession or depression
-to avoid the boom, increase taxes (fiscal policy), increase interest rates (monetary policy) TO decrease inflation, spending, borrowing. Change people's behavior
-austerity is appropriate in the boom, not the bust.
-in the bust, decrease taxes (fiscal policy) and decrease interest rates (monetary policy) TO increase spending, investment, and borrowing.
-equilibrium = steering markets
-use the TWINS = monetary and fiscal policy (government spending)
-BOOM confidence to go down (bull)
-BUST confidence to go up (bear)
-fiscal policy = government spending
-monetary policy = Bank of Canada (Canada) and the Federal Reserve (USA), central banks
-interest rates = money supply
-demand side economics (demand)
-middle class consumers spending or not
-stimulus (bust): deficit spending
-public industry
-means are different = government steering leads to economic stability = political stability, no political extremes, no fringe parties
-mixed economy</td><td>- Austrian School
- libertarian capitalist
- catallaxy and spontaneous order
- supply and demand = equilibrium
- government is considered bad
- The Road to Serfdom
- government involvement = slavery
- Business cycle = boom and busts (leave it be)
- Long term = patience
- Problem = Boom
- Bust = do nothing
- Bust = sin
- Austerity is appropriate in the bust, to avoid the boom that creates busts
- repent = producers and consumers
- no bailout (no stimulus)
- Bailout = malinvestment
- Malinvestments happen in the bust
- Bailouts = risks, which loses the discipline of the market
- Govnt involvement = "Free lunch"
- Social safety net = taking risks = bad
- moral hazard should be avoided
- Equilibrium = free markets
- Hated fiscal policy always (stimulus)
- Critical of central banks
- Some neo-liberals are OKAY with monetary policy, but often very, very critical and leery of fiscal policy
- supply side economics (focus on producers)
- captains of industry (taxes low = innovation will go up, wages will increase, efficiencies will go up and TRICKLE DOWN ECONOMICS is the result.
- austerity
- private industry
- means are different = free market leads to economic stability = political stability, no political extremes, no fringe parties
- Even the most benign government involvement is a slippery slope to dictatorship
- Laissez-faire libertarian free market</td></tr>
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