

Fear the Boom and Bust

In Fear the Boom and Bust, John Maynard Keynes and F. A. Hayek, two of the great economists of the 20th century, come back to life to attend an economics conference on the economic crisis. Before the conference begins, and at the insistence of Lord Keynes, they go out for a night on the town and sing about why there's a "boom and bust" cycle in modern economies and good reason to fear it.

SING ALONG

We've been going back and forth for a century

[Keynes] I want to steer markets,

[Hayek] I want them set free

There's a boom and bust cycle and good reason to fear it

[Hayek] Blame low interest rates.

[Keynes] No... it's the animal spirits

[Keynes Sings:]

John Maynard Keynes, wrote the book on modern macro
The man you need when the economy's off track, [whoa]
Depression, recession now your question's in session
Have a seat and I'll school you in one simple lesson

BOOM, 1929 the big crash
We didn't bounce back—economy's in the trash
Persistent unemployment, the result of sticky wages
Waiting for recovery? Seriously? That's outrageous!

I had a real plan any fool can understand
The advice, real simple—boost aggregate demand!
C, I, G, all together gets to Y
Make sure the total's growing, watch the economy fly

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You see it's all about spending, hear the register cha-ching
Circular flow, the dough is everything
So if that flow is getting low, doesn't matter the reason
We need more government spending, now it's stimulus season

So forget about saving, get it straight out of your head
Like I said, in the long run—we're all dead
Savings is destruction, that's the paradox of thrift
Don't keep money in your pocket, or that growth will never lift...

because...

Business is driven by the animal spirits
The bull and the bear, and there's reason to fear its
Effects on capital investment, income and growth
That's why the state should fill the gap with stimulus both...

The monetary and the fiscal, they're equally correct
Public works, digging ditches, war has the same effect
Even a broken window helps the glass man have some wealth
The multiplier driving higher the economy's health

And if the Central Bank's interest rate policy tanks
A liquidity trap, that new money's stuck in the banks!
Deficits could be the cure, you been looking for
Let the spending soar, now that you know the score

My General Theory's made quite an impression
[a revolution] I transformed the econ profession
You know me, modesty, still I'm taking a bow
Say it loud, say it proud, we're all Keynesians now

We've been goin' back n forth for a century
[Keynes] I want to steer markets,
[Hayek] I want them set free
There's a boom and bust cycle and good reason to fear it
[Keynes] I made my case, Freddie H
Listen up, Can you hear it?

Hayek sings:

I'll begin in broad strokes, just like my friend Keynes
His theory conceals the mechanics of change,
That simple equation, too much aggregation
Ignores human action and motivation

And yet it continues as a justification
For bailouts and payoffs by pols with machinations
You provide them with cover to sell us a free lunch
Then all that we're left with is debt, and a bunch

If you're living high on that cheap credit hog
Don't look for cure from the hair of the dog
Real savings come first if you want to invest
The market coordinates time with interest

Your focus on spending is pushing on thread
In the long run, my friend, it's your theory that's dead
So sorry there, buddy, if that sounds like invective
Prepare to get schooled in my Austrian perspective

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The place you should study isn't the bust
It's the boom that should make you feel leery, that's the thrust
Of my theory, the capital structure is key.
Malinvestments wreck the economy

The boom gets started with an expansion of credit
The Fed sets rates low, are you starting to get it?
That new money is confused for real loanable funds
But it's just inflation that's driving the ones

Who invest in new projects like housing construction
The boom plants the seeds for its future destruction
The savings aren't real, consumption's up too
And the grasping for resources reveals there's too few

So the boom turns to bust as the interest rates rise
With the costs of production, price signals were lies
The boom was a binge that's a matter of fact
Now its devalued capital that makes up the slack.

Whether it's the late twenties or two thousand and five
Booming bad investments, seems like they'd thrive
You must save to invest, don't use the printing press
Or a bust will surely follow, an economy depressed

Your so-called "stimulus" will make things even worse
It's just more of the same, more incentives perverted
And that credit crunch ain't a liquidity trap
Just a broke banking system, I'm done, that's a wrap.

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“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.”

John Maynard Keynes
The General Theory of Employment, Interest and Money

“The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.”

F A Hayek
The Fatal Conceit

“Fight of the Century” Lyrics

Written by John Papola and Russ Roberts

KEYNES

Here we are... peace out! great recession
thanks to me, as you see, we're not in a depression
Recovery, destiny if you follow my lesson
Lord Keynes, here I come, line up for the procession

HAYEK

We brought out the shovels and we're still in a ditch...
And still digging. don't you think that it's time for a switch...
From that hair of the dog. Friend, the party is over.
The long run is here. It's time to get sober!

KEYNES

Are you kidding? my cure works perfectly fine...
have a look, the great recession ended back in '09.
I deserve credit. Things would have been worse
All the estimates prove it—I'll quote chapter and verse

HAYEK

Econometricians, they're ever so pious
Are they doing real science or confirming their bias?
Their “Keynesian” models are tidy and neat
But that top down approach is a fatal conceit

REFRAIN

*Which way should we choose?
more bottom up or more top down
...the fight continues...
Keynes and Hayek's second round*

*it's time to weigh in...
more from the top or from the ground
...lets listen to the greats
Keynes and Hayek throwing down*

KEYNES

We could have done better, had we only spent more
Too bad that only happens when there's a World War
You can carp all you want about stats and regression
Do you deny World War II cut short the Depression?

HAYEK

Wow. One data point and you're jumping for joy
the Last time I checked, wars only destroy
There was no multiplier, consumption just shrank
As we used scarce resources for every new tank

Pretty perverse to call that prosperity
Rationed meat, Rationed butter... a life of austerity
When that war spending ended your friends cried disaster
yet the economy thrived and grew faster

KEYNES

You too only see what you want to see
The spending on war clearly goosed GDP
Unemployment was over, almost down to zero
That's why I'm the master, that's why I'm the hero

HAYEK

Creating employment's a straightforward craft
When the nation's at war, and there's a draft
If every worker was staffed in the army and fleet
We'd have full employment and nothing to eat

REFRAIN REPEATS

HAYEK

jobs are a means, not the ends in themselves
people work to live better, to put food on the shelves
real growth means production of what people demand
That's entrepreneurship not your central plan

KEYNES

My solution is simple and easy to handle..
its spending that matters, why's that such a scandal?
The money sloshes through the pipes and the sluices
revitalizing the economy's juices

it's just like an engine that's stalled and gone dark
To bring it to life, we need a quick spark
Spending's the life blood that gets the flow going
Where it goes doesn't matter, just get spending flowing

HAYEK

You see slack in some sectors as a "general glut"
But some sectors are healthy, only some in a rut

So spending's not free – that's the heart of the matter
too much is wasted as cronies get fatter.

The economy's not a car, there's no engine to stall
no expert can fix it, there's no "it" at all.
The economy's us, we don't need a mechanic
Put away the wrenches, the economy's organic

REFRAIN REPEATS

KEYNES

so what would you do to help those unemployed?
this is the question you seem to avoid
when we're in a mess, would you just have us wait?
Doing nothing until markets equilibrate?

HAYEK

I don't want to do nothing, there's plenty to do
The question I ponder is who plans for whom?
Do I plan for myself or leave it to you?
I want plans by the many, not by the few.

Let's not repeat what created our troubles
I want real growth not a series of bubbles
Stop bailing out loser, let prices work
If we don't try to steer them they won't go berserk

KEYNES

Come on, Are you kidding? Don't Wall Street's gyrations
Challenge your world view of self-regulation?
Even you must admit that the lesson we've learned
Is more oversight's needed or else we'll get burned

HAYEK

Oversight? The government's long been in bed
With those Wall Street execs and the firms that they've bled
Capitalism's about profit and loss
you bail out the losers there's no end to the cost

the lesson I've learned? It's how little we know,
the world is complex, not some circular flow
the economy's not a class you can master in college
to think otherwise is the pretense of knowledge

REFRAIN REPEATS

KEYNES

You get on your high horse and you're off to the races
I look at the world on a case by case basis
When people are suffering I roll up my sleeves
And do what I can to cure our disease

The future's uncertain, our outlooks are frail
That's why free markets are so prone to fail
In a volatile world we need more discretion
So state intervention can counter depression

HAYEK

People aren't chessmen you move on a board
at your whim—their dreams and desires ignored
With political incentives, discretion's a joke
Those dials you're twisting... just mirrors and smoke

We need stable rules and real market prices
so prosperity emerges and cuts short the crisis
give us a chance so we can discover
the most valuable ways to serve one another

FINAL REFRAIN

*Which way should we choose?
more bottom up or more top down
the fight continues...
Keynes and Hayek's second round*

*it's time to weigh in...
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