

Austrian Economics

Overview – A “heterodox” school of economics grounded primarily in the work of Mises, Hayek, Menger and Rothbard that advocates the purposeful economic decisions of the individual.

Mission Statement – The free market can solve most of our problems and the more we reduce government or eliminate government the better off we will all be.

General view of the economy – The less the government is involved in the economy the better it will perform.

How to fix the economy – We can fix the economy by reducing government and central bank involvement in free market forces.

What they love – Austrian Business Cycle Theory, free markets, individual freedoms and unfettered capitalism.

What they hate – Paul Krugman, the Federal Reserve, “Keynesians” and anyone who advocates for government intervention in markets.

Notable Pundits – Peter Schiff, Robert Murphy & Tom Woods.

Famous Dead Economist Associated with School - Ludwig von Mises, Friedrich Hayek, Carl Menger & Murray Rothbard.

Political Associations – Libertarians, conservatives, extreme conservatives and just about anyone who dislikes the government.

Preferred form of communication - Generally aggressive promotion of anti-government views through blog comments and conservative media.

Further Reading:

1 – What is Austrian Economics? – Mises.org

2- Understanding “Austrian” Economics – Hazlitt

3 – Austrian Business Cycle Theory, A Brief Explanation – Mahoney

4 - Austrian School of Economics – Boettke

Behavioral Economics

Overview - One of the newest and fastest growing schools of economics. Widely perceived as one of the most positive recent developments in economics.

Mission Statement - The best way to understand the workings of the economy is by understanding the way the human mind reacts and adapts to markets and the economy.

General view of the economy - The economy is complex, dynamic and uncertain and is being navigated by imperfect participants. Because of this it could be appropriate for government intervention at times.

How to fix the economy - Behavioralists don't make specific policy recommendations, but generally believe that we can better understand the economy if we better understand human psychology as it pertains to money, markets and the economy.

What they love - Prospect theory, studying human biases and highlighting the fact that we're totally ill-equipped to deal with money and markets.

What they hate - That their work is often rejected by mainstream economists as being something outside of the field of real economics.

Notable Pundits - Richard Thaler, Robert Shiller, Dan Ariely & Daniel Kahneman.

Famous Dead Economist Associated with School - George Katona & Amos Tversky.

Political Associations - No direct political associations.

Preferred form of communication - Well researched papers and books primarily. Behavioralists, not surprisingly, tend to be open-minded and well behaved.

Further Reading:

1- Prospect Theory: An Analysis of Decision under Risk – Kahneman & Tversky

2- Behavioral Economics – Thaler & Mullainathan

3 – Predictably Irrational - Ariely

Classical Economics

Overview - The “original” school of economics based on the understandings of the “classics” like Adam Smith, David Ricardo and John Stuart Mill that stressed economic growth and freedom emphasizing free markets.

Mission Statement - The “invisible hand” of the free markets is all we need to achieve equilibrium.

General view of the economy - Classical economists were the emerging capitalists from the age of feudalism. They saw outside intervention in the markets (such as regulation and government) as a disruption to the natural order of markets.

How to fix the economy - Let the free markets do their thing.

What they love - Say’s Law, the concept of the “invisible hand”, laissez faire ideas and free markets.

What they hate - Outside intervention in markets and mercantilism.

Notable Pundits - None living.

Famous Dead Economist Associated with School - Adam Smith, David Ricardo & John Stuart Mill.

Political Associations - Conservative.

Preferred form of communication - This school has evolved into the modern neoclassical schools.

Further Reading:

1 - The Wealth of Nations – Smith

2 – On Liberty – Mill

Market Monetarism

Overview - Largely seen as a revival of traditional Monetarism utilizing the foundations of Milton Friedman’s work and growing extremely popular with the “freshwater” schools.

Mission Statement – The Central Bank can steer the economy on a glide path to prosperity through a laissez faire approach if we implement NGDP targeting.

General view of the economy - The economy is unlikely to reach equilibrium without a permanent NGDP targeting rule in place.

How to fix the economy – Duh, NGDP targeting.

What they love - NGDP targeting.

What they hate - Anyone who rejects NGDP targeting. And people who confuse their thinking with traditional Monetarist views centered around monetary aggregates, monetary velocity and interest rates.

Notable Pundits – Scott Sumner, David Beckworth & Nick Rowe.

Famous Dead Economist Associated with School - Milton Friedman.

Political Associations - Libertarian and conservative.

Preferred form of communication - Scott Sumner's blog.

Further Reading:

1 – Scott Sumner's Market Monetarism FAQ

2 - Market Monetarism, The Second Monetarist Counter Revolution - Christensen

Marxian Economics

Overview - A largely defunct school of thought based on the economics of Karl Marx.

Mission Statement - Capitalism is not just flawed, but likely to screw most of us all if left to its own devices.

General view of the economy - A capitalist economy is not just flawed, but naturally self destructive and therefore requires outside intervention and regulation to be consistent with prosperity. In essence, the capitalist class will obtain exceptional power over the labor class resulting in massive inequality and general hardship.

How to fix the economy - Intervene preemptively to make sure the capitalists don't wreck it.

What they love - The labor class.

What they hate - The capitalist class.

Notable Pundits - Karl Marx, Karl Marx and some guy named Karl Marx.

Famous Dead Economist Associated with School - Some guy named Karl Marx.

Political Associations - Extremist liberals.

Preferred form of communication - The darkest corners of the internet and slowly becoming extinct in all other corners.

Further Reading:

1 - Capital: A Critique of Political Economy – Marx

Modern Monetary Theory (MMT or Chartalism)

Overview - A heterodox school associated with a branch of the Post-Keynesian school of economics (see below) that has become very popular on the internet in the last 10 years.

Mission Statement - There is no economic problem that fiscal policy can't solve.

General view of the economy - Capitalism is naturally flawed and can only operate at full capacity if the government is used to permanently fill any demand shortages that exist.

How to fix the economy - Fiscal policy in the form of tax cuts and spending increases in addition to the implementation of a government Job Guarantee to employ anyone who wants a job.

What they love - Job guarantees and telling you how little you know about economics.

What they hate - That the mainstream won't take them seriously.

Notable Pundits - Warren Mosler, Randall Wray and William Mitchell.

Famous Dead Economist Associated with School - GF Knapp, Abba Lerner & Alfred Mitchell-Innes.

Political Associations - Liberals, extremist liberals and socialists.

Preferred form of communication - Aggressive and very active commenting on any blog comment section usually reminding the author that they "just don't understand MMT" or the economy.

Further Reading:

1 – Soft Currency Economics – Mosler

2 – 7 Deadly Innocent Frauds – Mosler

3 – Modern Money Theory – Wray

New Classical Economics

Overview - The New Classical school is the modern adaptation of the classical school (see above). It is based on Walrasian assumptions, rational expectations and arose out of the failures of the Old Keynesian schools during the failure of the Phillips Curve and stagflation in the 1970's.

Mission Statement - Macroeconomics requires new classical microfoundations to be properly utilized.

General view of the economy - Rational agents are always making optimal decisions and firms are always maximizing profits, but the economy is often shocked by “real” effects like unanticipated policy changes, changes in technology or changes in raw materials.

How to fix the economy - New Classical economists are generally associated with a laissez faire approach to policy.

What they love - The Lucas Critique, Ricardian Equivalence, rational expectations & microfoundations.

What they hate - The concept of “involuntary unemployment” and policy stabilization.

Notable Pundits - Edward Prescott, Robert Lucas, Thomas Sargent and Robert Barro.

Famous Dead Economist Associated with School - John Muth.

Political Associations - Generally conservative, but at times also appealing to no specific political party.

Preferred form of communication - Academic work primarily.

Further Reading:

1 - New Classical and Keynesians, or the Good Guys and the Bad Guys – Barro

2 - New Classical Macroeconomics – Hoover

3 - RATIONAL EXPECTATIONS AND THE THEORY OF ECONOMIC POLICY – Sargent & Wallace

New Keynesian Economics

Overview - The New Keynesians are the adaptation of the Old Keynesians who responded to the criticism of the New Classical in the 1970s and 80's by creating an updated model of the economy to help explain some of the Keynesian failures of the 70's. Most of the “economics” one learns today is closely related to or directly related to New Keynesian economics. It has become, by a wide margin, the dominant model used by

policymakers. Although it adopted the term “Keynesian” in its name the school actually pitches a fairly broad tent using some neoclassical foundations as well as Monetarist perspectives.

Mission Statement - Although economic agents are rational we believe policymakers can improve economic stability and help attain full employment through various stabilization policies designed to combat a variety of market failures.

General view of the economy - Economic agents are rational, but markets are imperfect due to phenomena such as “sticky prices”. This can result in broad market failures leading to recession.

How to fix the economy - New Keynesians will generally deviate towards the use of Monetary Policy, but will at times also recommend fiscal policy to help stabilize the economy. They have become particularly vocal during the recent recession due to the “zero lower bound” and the ineffectiveness of monetary policy thereby arguing for a fiscal approach.

What they love - Sticky prices, rational expectations, the Zero Lower Bound, the natural rate of interest, DSGE modeling.

What they hate - Not much. They pretty much dominate the popular economic journals, textbooks and have the ears of policymakers. If anything, they hate not being taken even more seriously than people already take them and mostly fight among one another regarding their minor differences on policy and politics.

Notable Pundits - On the liberal side: Paul Krugman, Brad DeLong & Joe Stiglitz. On the conservative side: Greg Mankiw, David Romer & Olivier Blanchard.

Famous Dead Economist Associated with School - JM Keynes although it should be noted that New Keynesian economics has actually deviated substantially from the original work of Keynes and has incorporated a good deal of both Monetarist and neoclassical concepts which Keynes would have rejected.

Political Associations - This tent is broad with both conservative and liberal economists.

Preferred form of communication - Academic research and several popular blogs such as Paul Krugman’s NY Times blog and Greg Mankiw’s blog. These economists also dominate the textbook arena.

Further Reading:

1 – What is New Keynesian Economics? - Gordon

2 – New Keynesian Economics – Mankiw

Post-Keynesian Economics

Overview - A branch of Keynesian economics that portends to get back to what the “true Keynes” thought about the economy and how to improve it.

Mission Statement – JM Keynes had it all right all along. Involuntary unemployment is the result of aggregate demand shortages resulting primarily from failures by firms to maximize investment.

General view of the economy – Capitalism exists on an inherently unstable foundation and will at times require some forms of government intervention to achieve prosperity.

How to fix the economy – Counter-cyclical policies with a focus on fiscal policy.

What they love - Rejecting large swaths of mainstream economics and calling out modern Keynesians for having misconstrued the works of Keynes.

What they hate - Thinking that the mainstream thinks they’re irrelevant cranks.

Notable Pundits – Paul Davidson, Tom Palley and Marc Lavoie.

Famous Dead Economist Associated with School - Wynne Godley, Joan Robinson and Nicholas Kaldor.

Political Associations - Centrists and liberals.

Preferred form of communication - Virtually none. The school is almost entirely unrepresented by a prominent mainstream voice and is largely shut out of the prominent academic journals.

Further Reading:

1 – Monetary Economics – Lavoie & Godley

2 - The Keynes Solution – Davidson