

The Song

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
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[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

Prepared 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