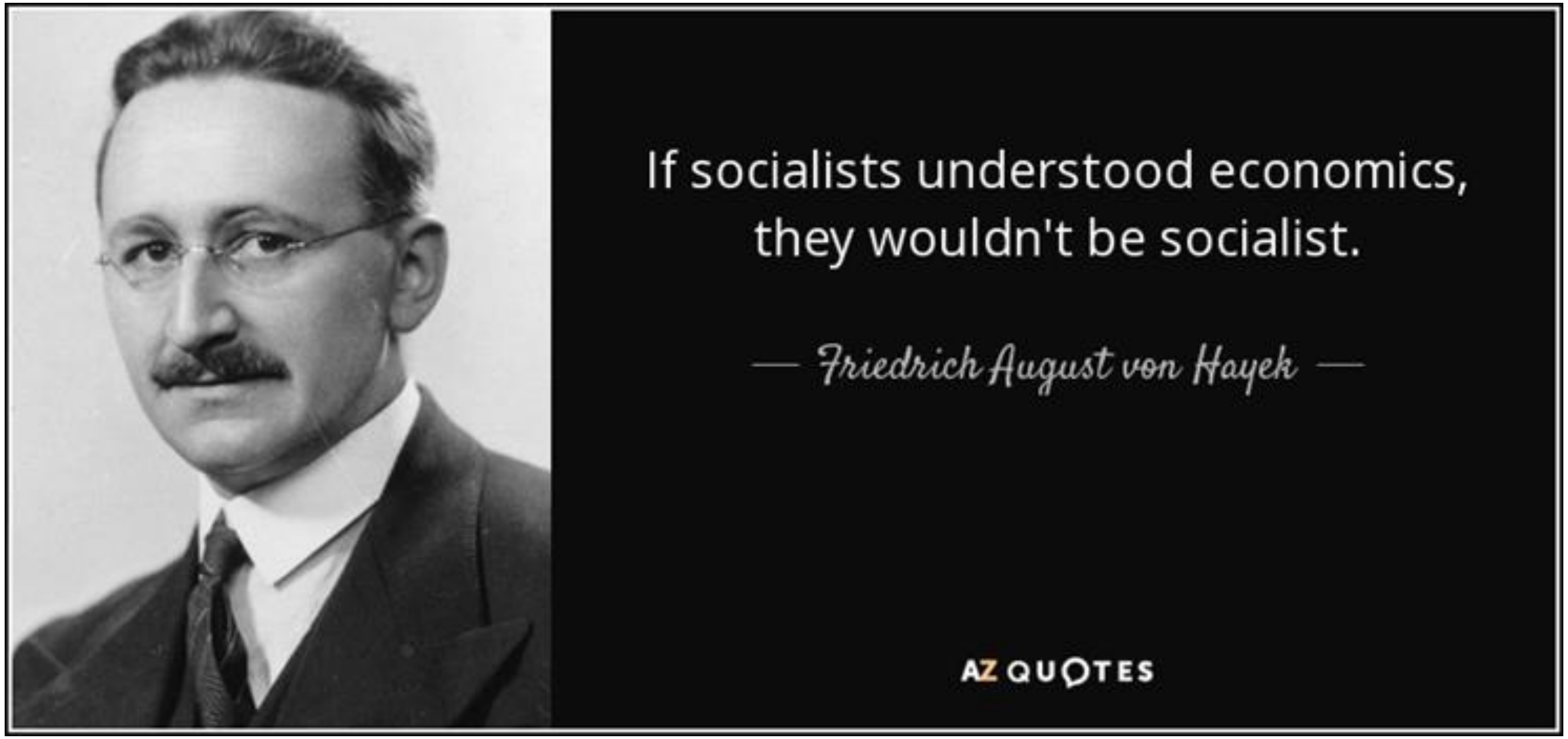
Friedrich Hayek

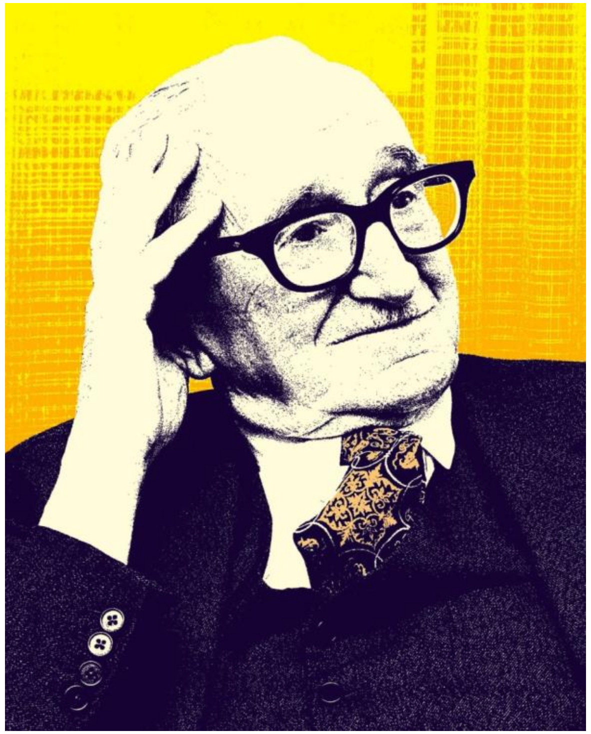
Business Cycle
Road to Serfdom

Jonathan Spitzer – Introductory Thai Economy


If socialists understood economics,
they wouldn't be socialist.
— Friedrich August von Hayek —
AZ QUOTES

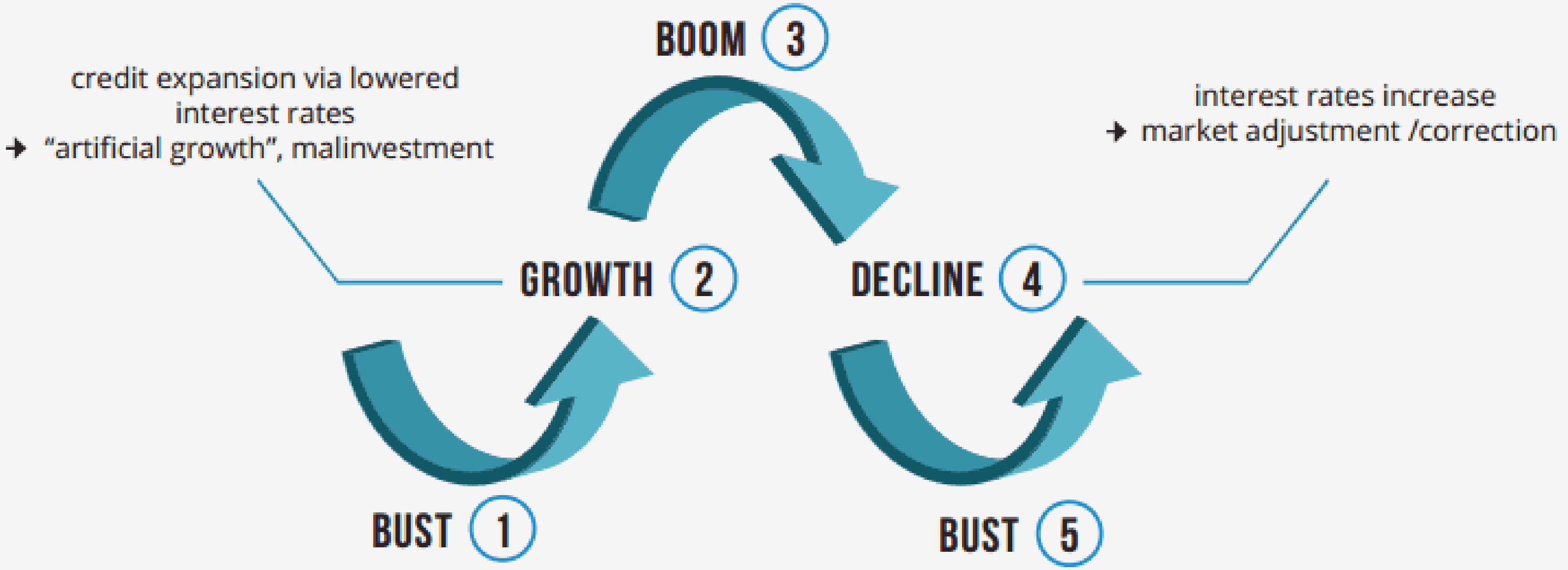
Friedrich Hayek

- Austrian and British economist
- Served in World War I
- Doctorate in law and political science
- Criticize John Maynard Keynes
- Defense of classical liberalism
- Earned nobel price 1974



Austrian theory of the business cycle

- Business cycles are the **consequence** of:
  - excessive growth in bank credit and
  - low interest rates
- **Result:**
  - volatile and unstable imbalance between saving and investment.
- Differs significantly from mainstream economics
- Not taught in most of business schools worldwide

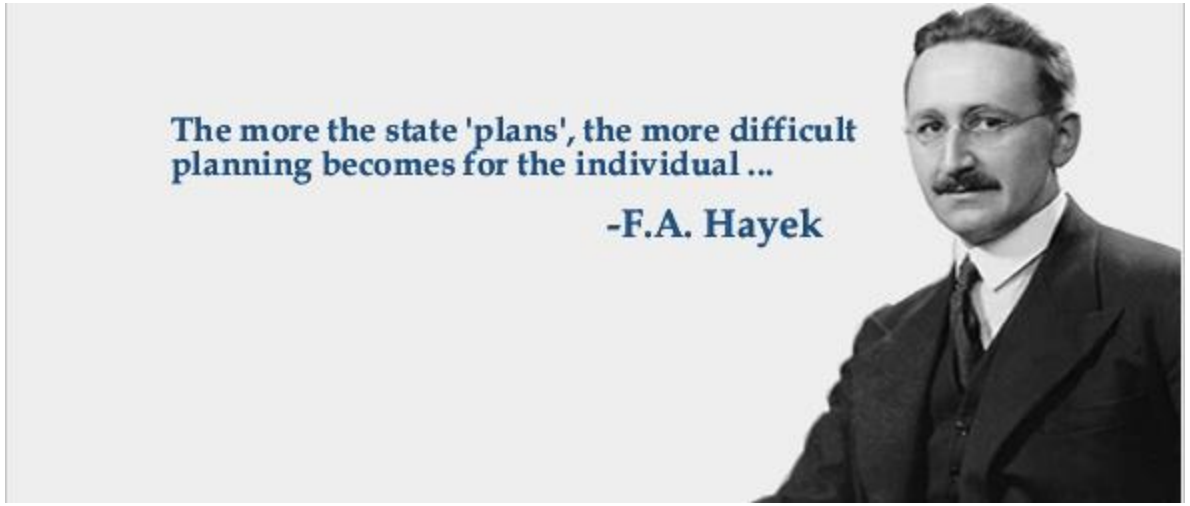


The cycle:

1. The economy grows as the government enforces a lower interest rate to encourage borrowing.
2. The credit expansion leads to higher borrowing, more investments (directed more towards capital good projects that do not reflect present-time consumer demand), and higher employment levels, but at the expense of inflated prices.
3. Reaching the boom, but facing the consequences of malinvestment. There is no demand for the oversupply of unwanted production.
4. Contraction sets in: Consumers are not spending, slowdown in business activity, unemployment is rising, and the government raises interest rates back to original market levels.
5. The Bust: Decline in value of investments, particularly assets. Unemployment reaches peak as investments are losing, and borrowers become unable to make their loans.

The Road to Serfdom

- Hayek refuse the Britain's view that fascism was a capitalist reaction to socialism
- Absence of individualism und classical liberalism leads to loss of freedom
- Rejects government decision making & central planning



The Road to Serfdom

- Significant impact on conservative and libertarian politicians around the world
- Central planning in western countries leads to:
  - Totalitarianism!!
  - & is undemocratic
- Even the very poor ones in a society have more freedom in an open society than in a planned one
- Freedom of the market
- No government interference
  - BUT: provide safety net & protect against froud

Hayek’s influence on conservative leader

- **Margarete Thatcher** – Thatcherism in Great Britain
- **Ronald Reagan** – Reagonomics in U.S.A