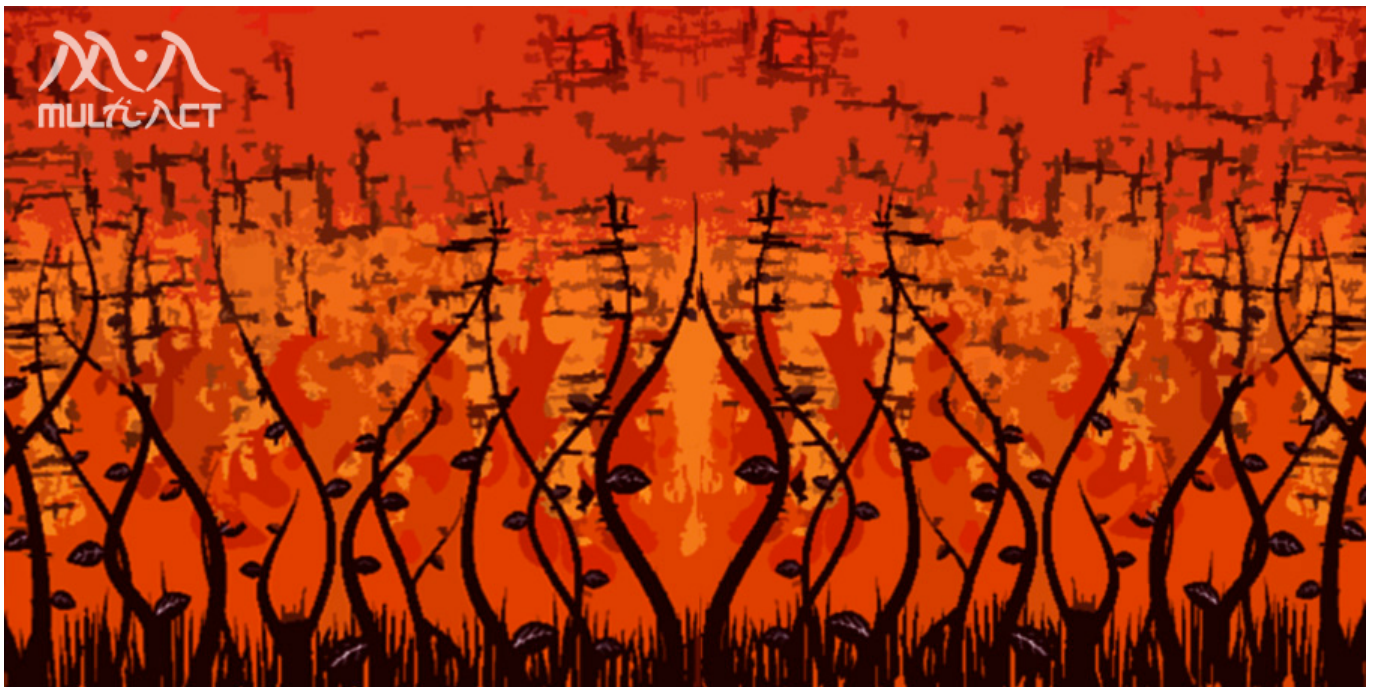


Austrian School of Economics vs Keynesian Economics

By Team Multi-Act



As always the best way to explain anything is with a story – and in this case a true story.

Forest fires are a major concern in many parts of the U.S., upsetting lumber companies who saw profits burn and individuals who saw the trees ablaze. The Government decided to try and better the situation. They spent money and time to train personnel and improve infrastructure and after a few years, they had stopped the various small fires from breaking out. Everybody seemed happy. Success? Not really.

A few years after this there was a forest fire, and it burnt hotter and faster than ever, burning down nearly 32% of the forest! Soon there were more of these larger fires that were similarly fierce and destructive. But why was this happening? Hadn't they solved the problem? Soon they realized that those small forest fires that use to occur actually helped burn away all the

undergrowth and deadwood, without actually reaching any of the mature trees and larger parts of the forest. By preventing these small fires, the undergrowth and deadwood had now accumulated, now acting as a fuel to the fire and spreading it further into the forests and even destroying many of the older mature trees.

The Lesson: Nature was better off not disturbed in this case; nature takes care of itself in the long run.

Austrians feel the same way about the free markets, and government intervention, They even propose that periods of depression are just a cycle in any healthy economy, acting just like the cleansing fires in the forest! In the aftermath of a depression new business, opportunities and industries will emerge, and this is how capitalism and business cycles occur. Keynesians on the other hand, have always advocated rules, laws, taxes etc. to control and mould market forces.

Austrian Economics differs from Keynesian Economics in the basic approach to solving economic problems. Austrians believe that nature should be allowed to run its course and the lesser the Government interference in free markets, the better it is. They believe that by understanding and predicting how people will react to different conditions (and by reactions they mean planned or logical actions and not knee-jerk reactions) one can understand and predicts what's likely to happen next. The Austrian School of Economics believes that the human and social element plays an equally important role in understanding prices, market movements as well as money and value creation. Often dubbed as economic philosophers, these economists make most of their findings more theoretical than mathematical. So their's are not purely model-based predictions.

Keynesians on the other hand believe that Governments are an important market intermediary, and while its role is not properly defined, they believe that State intervention, pricing and policy controls are essential tools to controlling, understanding and predicting market conditions. Keynesians are adept at using models and modeling tools to make their predictions.

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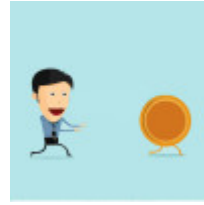
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