Anyone reading the international daily press would have the impression that a primitive form of Keynesianism is dominating the politico-economic debate. Do other voices have a chance? Friedrich August von Hayek – as a representative of the Austrian School he was the decisive opponent of John Maynard Keynes and the Cambridge School – knew that in economics and politics truth cannot be established once and for all; rather, every generation must be convinced anew of the right ideas. At the moment two different schools of thought – Austrian vs Cambridge – are struggling for pre-eminence. A collection of essays applying arguments of the Austrian School to banking and monetary policy has recently appeared. The publishers have gathered contributions from renowned representatives of the Austrian School. The essays offer a valuable perspective on the most recent economic crises as well as solid arguments against zero interest rate policies and against the massive state intervention that aims to resurrect general investment activity.

Many of the essays are clearly relevant to the current politico-economic situation. Take three texts as an example. In his essay “What is wrong with the 2% Inflation Target?” Brendan Brown examines a problem that economists and politicians – both with and without knowledge of monetary policy – have been grappling with. His comparison of [then] ECB President Mario Draghi with the naked Emperor in Hans Christian Andersen’s tale “The Emperor’s New Clothes” illustrates the main problem: Draghi purports to be able to fight deflationary tendencies and precisely steer the inflation rate through aggressive monetary policy. But in the Eurozone neither was deflation looming nor did private consumption prices react to Draghi’s measures.

The politicians nevertheless let him do as he liked. It is worth highlighting the fundamentally different approach to inflation taken by the Austrian School. For the Austrian School inflation is not an increase in the price level of a more or less random basket of goods, but rather a swelling of the money supply. From the Austrian perspective the excessive expansion of the money supply leads to intertemporal disequilibria in the structure of production and thereby to asset price bubbles. Just looking at real estate price trends demonstrates the relevance of the Austrian approach.

The Leipzig economist Gunther Schnabl describes in his essay how cheap money provoked boom and bust cycles at the beginning of the last decade in the southern Eurozone. The mortgage of these distortions weighs on these economies still today. Has politics learned anything from this?
No, answer Hoffman and Cachanosky. In their essay they argue that the ECB’s cheap money failed to achieve the main goals of its supporters, which had been to stimulate sustainable investments in the real economy through increased bank credit. The main beneficiaries were the over indebted Eurozone countries, which were tempted by the cheap money to delay important structural reforms. With its zero interest rate policy the ECB prolonged the crisis and planted the seed for new asset price bubbles. Schnabl rightly calls for the quick abandonment of cheap money policies.

The last part of the volume is concerned with the bitcoin phenomenon and its relation to Austrian ideas. Even if the most recent developments in the digital currencies markets look suspiciously like the creation of bubbles, only the future will show whether Bitcoin & Co. can break into the market and whether citizens will become independent of the whims of central banks. In his “General Theory” Keynes expressed a thought similar to the one from Hayek mentioned above: “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.” Anyone who wants to know who will rule the world – Keynes or Hayek – would do well to acquire this book.