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Internet Austrianism and the Need for Conservative Expertise

By: Timothy B. Lee – November 15th, 2012

After describing me as “hardly what you’d call a liberal,” (which I don’t agree with. At a minimum I’m a classical liberal) Noah Smith interprets my post on conservatives’ reality problem as a critique of New Classical economics:

Basically, Lee is saying that freshwater (or “New Classical”) macro is essentially a political shibboleth – an intellectual excuse for conservatives to oppose government action, rather than a serious attempt to model economic reality.

This is a point of view I hear expressed more and more frequently, not just in liberal circles, but in libertarian ones as well. It is an accusation that I myself have been unwilling to make, though I don’t rule it out either. If this is becoming the conventional wisdom, it represents serious trouble for freshwater macro.

Supporters of that school of thought should sit up and take notice.

I think Noah is giving me too much credit here. When I critiqued conservatives’ views on macroeconomics, I wasn’t thinking of credentialed economists like Robert Lucas and Robert Barro. I haven’t read very much of Barro, but my impression is that he buys into the basic conceptual model in which demand shortfalls can cause recessions. Here, for example, he concedes that recessions can be the result of sticky wages, and that “this problem could be readily fixed by expansionary monetary policy.” Barro is just skeptical that this particular recession is a demand-side phenomenon, and like Milton Friedman he’s particularly skeptical about the use of fiscal policy to remedy demand shortfalls.

Rather, when I wrote the passage on macroeconomics, I was primarily thinking about what Scott Sumner calls “Internet Austrians” whose understanding of macroeconomics seems to end with Say’s Law and Bastiat’s broken window fallacy. They don’t accept, or in many cases don’t seem to have ever grasped, the basic idea that a recession can be caused by a demand shortfall. As far as I can tell, “Internet Austrianism” is less a coherent body of thought than a collection of crowd-pleasing aphorisms about economic policy.

And that's a big problem because reality is often counterintuitive. You might think the views of Greg Mankiw, Robert Barro, Scott Sumner, or George Selgin are wrong, but at least they understand standard macroeconomic concepts and have a coherent story about why they favor alternative models. In contrast, many conservatives seem to have macroeconomic policy views that seem like common sense but are hard to square with empirical reality or assemble into a coherent economic model. When conservative intellectuals like David Frum and Ramesh Ponuru have tried to nudge conservatives in a more rational and empirically-grounded direction, the conservative grassroots has tended to dismiss them as sellouts rather than taking their arguments seriously.