

On the Effects of Disinflationary Policies on Unemployment and Inflation: A Simulation Study With-Keynesian and Monetarist Models for Austria*

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This paper is concerned with an empirical study of very simple Keynesian and Monetarist models of unemployment and inflation, which are estimated with Austrian data. We compare these models with respect to their ability of tracking historical values of the rate of unemployment and the rate of inflation. Some simulation experiments with disinflationary policies during the seventies are performed in order to assess the impact of such policies on unemployment and inflation. In particular, we study the consequences of a constant money supply growth rule within these models and compare the respective benefits and costs of this policy rule with the results of actual stabilization policies in Austria.

1. "Austro-Keynesianism" Amidst the Monetarist Counter Revolution

Since *Milton Friedman's* (1968) presidential address an increasing number of Monetarist propositions have been accepted by mainstream macroeconomic theory and have exerted also considerable influence upon stabilization policies in several countries. Although by no means universally accepted, the Monetarist paradigm (including New Classical Macroeconomics) now can be regarded as at least as influential as the Keynesian one, both with respect to macroeconomic theorizing and to the conduct of monetary and fiscal policies. However, it is remarkable that these developments have left nearly no visible marks on economic theory and policy in Austria. In fact, from an international perspective Austria could be regarded as one of the last bastions of Keynesianism, both with respect to the policies pursued so far and with respect to the views most economists in this country hold. A recent survey among Austrian economists,¹ for example, has shown significant

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¹ *Pommerehne et al.* (1983).