

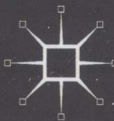


EXPLORING THE
BASIC INCOME
GUARANTEE

BASIC INCOME AND THE FREE MARKET

Austrian Economics and the
Potential for Efficient Redistribution

Edited by
Guinevere Liberty Nell



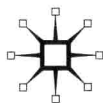
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BASIC INCOME AND THE FREE MARKET

Basic income is one of the most innovative, powerful, straightforward, and controversial proposals for addressing poverty and growing inequalities. A Basic Income Guarantee (BIG) is designed to be an unconditional, government-insured guarantee that all citizens will have enough income to meet their basic needs. The concept of basic, or guaranteed, income is a form of social provision and this series examines the arguments for and against it from an interdisciplinary perspective with special focus on the economic and social factors. By systematically connecting abstract philosophical debates over competing principles of BIG to the empirical analysis of concrete policy proposals, this series contributes to the fields of economics, politics, social policy, and philosophy and establishes a theoretical framework for interdisciplinary research. It will bring together international and national scholars and activists to provide a comparative look at the main efforts to date to pass unconditional BIG legislation across regions of the globe and will identify commonalities and differences across countries drawing lessons for advancing social policies in general and BIG policies in particular.

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Edited by Guinevere Liberty Nell

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PART I

Austrian Support for the BIG

Introduction

Guinevere Liberty Nell

This book has two primary goals, which together may bring two seemingly opposed schools of thought together around the policy of the Basic Income Guarantee (BIG). The first is the goal of reminding contemporary Austrian school economists the extent to which the founders and heroes of their school favored policies of this sort, and how well it fits within the Austrian school economic framework. The second is to expose market socialist thinkers, political philosophers, and all flavors of heterodox economist to the positive features of the Austrian school framework, including its insights regarding the features of markets that should be retained in any market socialist or interventionist proposal.

Austrian economists should recognize that their analysis does not establish that zero intervention is best; a nonintrusive redistribution like the BIG might actually represent an improvement upon pure laissez-faire. Austrians should also take on board the insights of other schools, some of which were accepted by the founders of the Austrian school. Economic schools that use similar dynamic models should be seen as part of the broader Austrian methodological movement—they should be treated as much like a cousin school as public choice economics.

Meanwhile, market socialists and other heterodox economic schools, as well as Left-wing thinkers, should recognize the insights of the Austrian school, such as the importance of free exchange and evolutionary spontaneous order. Both “extremes” would do well to learn from each other, and to better understand how the Austrian school framework may be compatible with policies such as the BIG, which retains free markets while intervening to make a market *correction* to preexisting resource distribution *distortions*. The collection intends to show that these divergent perspectives are closer and more connected than is usually understood.

Early Austrian economists such as Menger, and later Hayek, maintained the view that some intervention was necessary to “repair” damage done by past interventions, or to distribute the natural resources of the planet to its inhabitants. However, in recent years Austrian economists have become more “purist,” favoring complete laissez-faire, or even anarcho-capitalism, and denying any role for the state in production, distribution, or redistribution.

No economy today, and probably no economy ever, was a good approximation of the theoretical free market system, with equal starting positions and equality of opportunity. No government or anarchic system ever protected private property rights only and interfered in no other way; yet even if it did, it would have evolved from an earlier system that was imperfect in its approximation of free exchange. Developed economies such as the United States are influenced by rent-seeking and corporatism today, in addition to emerging from historical economies that were dominated by a slave-holding elite protected by the state. Austrians must acknowledge the nature of these past economies and the system, which has evolved out of them, that exists today. No economy today approximates a free market. Imperfect as it may be, the BIG may prove to be less imperfect, by many measures, than many existing and proposed policies.

Chapters in this book show that Hayekian scholars, and those who agree with Austrian analysis of socialism, subjective value and the market process, and spontaneous order, may still conclude that markets and unobtrusive redistribution may work side-by-side to bring about a society more conducive to widespread social well-being. Matching the high-revenue–spending levels currently in place, the BIG could replace broken or corrupt programs. This would allow a freeing of the market and a simple and easy to administer program in place of complex and irrational ones. As market socialists remind us, free action in markets requires *ability* as well as willingness to pay. Nell (chapter 1) considers the ramifications of this. Free markets also do not necessarily offer true freedom (Burczak, chapter 2). Inequalities stemming from luck and circumstance are compounded in markets, whether free or politically influenced; “market corrections” are required for Austrian conclusions about free market efficiency and its superiority over redistribution to be warranted.

Although most contemporary Austrian economists extol the virtues of “virgin” free markets, Austrian theory, carefully considered, actually affirms that a simple, market-friendly program such as the BIG should be preferred by Austrians, both when considering the

fiscal policy (Cameron Weber, chapter 4) that should be taken, for market process reasons, and when considering the financial policy (Kuehn, chapter 3), for macroeconomic stability reasons. As Troy Camplin's analysis (chapter 5) also attests, the policy interferes much less with the spontaneous order of the market. From a purely economic perspective, according to the Austrian framework the policy should be preferred to actually existing welfare state policies. However, Camplin sees it as politically infeasible to introduce, as does Laurent Dobuzinskis (chapter 7), who argues that a pared-down version might be more politically feasible.

A BIG should also be preferred for reasons of "justice" and "social welfare"—the normative—as Burczak, Dobuzinskis, and Nell each argue. Although "Bleeding Heart Libertarians" show strong support for the policy, prominent Austrian school economists like Boettke and Martin (reprinted, chapter 6) tend to be highly skeptical of it. However, there are inconsistencies in Austrian policy recommendations, as many chapters in the book show; and in chapter 8 Nell argues for land as the basis of a BIG that Austrians can support.

Nell and Richmond (chapter 9) argue that Austrians should note the way that a BIG empowers the individual as entrepreneur, worker, and consumer, and changes the face of the market economy in a universally desirable way. Finally, Caceres and Strong (chapter 10) describe how the policy can be introduced in "free cities," voluntarily joined as a private organization, eliminating any final objections by even the most ardent proponents of pristine, "virgin" free markets.

Welfare in the Austrian Marketplace: Bridging Austrian and Market Socialist Economics

Guinevere Liberty Nell

INTRODUCTION

Austrian economics is nearly synonymous with “free market” economics and politics—libertarianism—to almost anyone familiar with the label. It also defines the methodology of Menger, Mises, Hayek, and others; but an admiration for markets and criticism of government is almost universally expected of adherents. Of course, this was not always the case. As Hayek told Axel Leijonhufvud during his famous 1979 series of interviews conducted by other economists, “The meaning of the term has changed. At that time, we would use the term Austrian school quite irrespective of the political consequences which grew from it. It was the marginal utility analysis which to us was the Austrian school.”¹

Perhaps it should not be surprising if, after 120 years, one judgment of the school has become synonymous with the school itself (in the interview Hayek describes the “renewal of interest” in Austrian economics as only in “the Mises school”). Like markets and political parties, economic schools may have a tendency to both specialize (concentrate on a certain focus area) and split or fracture (allowing new schools to take over other duties). Still, the methodology and insights of the original school may sometimes be of greater value than those of the narrow one that may be hobbling along a century later, laden with assumptions and expectations.

It may be worth going back to the roots of the Austrian framework to ask whether the pure *laissez-faire* conclusion is warranted—whether it indeed produces the best outcome for social welfare—and if so why economists from other schools might accept core Austrian insights and still find it wanting. Economists of the Austrian school predicted many of the problems that were in fact encountered in socialist economies; and market socialists recognize this and accept Austrian explanations. Yet, market socialists insist on finding fault with “virgin” free markets, and come up with increasingly sophisticated policies for redistribution, which avoid the major issues of intervention pinpointed by Austrian economists.

AUSTRIAN FUNDAMENTALISM OR MARKET SOCIALIST NAIVETY?

For many, inside and outside of academia, Hayek represents the most central figure on the side of free markets in the academic debate over the relative merits of socialism (or central planning) and markets (or *laissez-faire*) (Feser, 2006). Hayek was initially branded as the loser. Who “won” the debate was decided essentially by a show of hands: the consensus was that everyone *liked* Lange’s essays better than Hayek’s; whoever convinced more economists was considered the winner.² Had the two models been expected to make accurate predictions, fulfill certain third-party standards or objectives for realistic assumptions, or had their models been put into practice in a feasibility study, or proof-of-concept test-run (in a private charter city for example, as proposed by Caceres and Strong, chapter 10) it is anything but clear that Lange would have won.

Hayek’s victory was not conceded by the neoclassical mainstream until the collapse of the Soviet Union. Had these economists suddenly realized the inherent problems with central planning which they had been blind to for decades? Was it a political shift, which either freed them to speak out against planning, or forced them to defend markets? We may never have a definitive answer to that. (Some have argued that it was a slow shift of opinion that merely came to light when the collapse brought the question into the spotlight.)

Market socialists took serious lessons from the collapse regarding the feasibility of socialism, and have given explicit credit to Austrian economists, especially Hayek, for predicting the outcome of real-world central planning. However, market socialists contend that many kinds of intervention short of complete central planning (but

strong to varying degrees depending upon the scholar) may be both feasible and desirable.

Many would say that Austrians have taken their claims of “victory” too far. Now it is taken for granted by many that markets have failed fantastically by causing the “Great Recession.” Austrians argue that it was intervention at fault, but others maintain that markets necessarily produce recessions—that the business cycle is inevitable in a free market economy—and even *require* interventions. Marxists agree that the cyclic nature of markets (crises, in Marx’s terminology) is innate to them.

Because they have had a vested interest in determining the best way to reach the goals that all socialists have advocated—greater equality and a reasonable standard of living for all persons, and so on—they have spent a great deal of time analyzing the problems with central planning, learning the benefits of markets, and working on ways to leverage the powers of the market system toward the ends that they seek.

Seeing the significant failures of the model of central planning, market socialists have come to the conclusion that the use of markets is necessary. Christopher Pierson (1995: 88) summarizes: “The core premise of the market socialist position is then a largely negative one. The market is indispensable, not as an *optimal* way of arranging society’s political and economic affairs, but rather as the *least worst* form of such an organization under prevailing conditions.” It is this realization that not only unites but also defines market socialists. Pierson (1995: 85) explains that: “While not itself ‘defeatist’, [market socialism] is a form of socialism which has clearly been tutored by (an often painful) experience.” He quotes Miller (1989a: 9) who describes market socialism as representing “an attempt to come to terms with [the] defects in state socialism and social democracy while still holding on to certain core socialist ideals.”

Market socialists recognize that the defects of state socialism or central planning include not only its inefficiency, but also its restrictions on freedom. Market socialists, Pierson (1995:85) explains, are striving to find (in Keynes’ words) a new way to “combine three things: economic efficiency, social justice and individual liberty.” Although Hayek argues that social justice is “a mirage,” Austrians too seek to reconcile economic efficiency (though they focus on a dynamic efficiency),³ individual liberty, and the most optimal possible system measured in terms of welfare across society. However, for Austrians individual liberty is the key to achieving the other two;