

DON'T DRINK THIS BREW: THE TEA PARTY AND "AUSTRIAN" ECONOMICS

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Read all of his columns about "The Third Way" at
www.home.roadrunner.com/~nickgier/ThirdWay.htm

I made a mistake in presuming that the self-interests of organizations were such that they were best capable of protecting their own shareholders and their equity in the firms.

--Alan Greenspan, Former "Fed" Chairman, on "Austrian" Economics

The economy is having an excellent run and business is booming.

--*The Economist's* Special Report on Social Democratic Austria

At the Maine GOP convention in May the delegates scrapped the previous platform and instead supported Tea Party policies, which one observer described as a "mix of right-wing fringe policies, libertarian buzzwords, and outright conspiracy theories." GOP attorney Dan Billings rejected the new positions as "wack job pabulum" and "nutcase stuff." Running for governor of Maine on the GOP ticket, Peter Mills, described as a "fiscal conservative and social libertarian," fears that "this platform can be used to defeat Republicans in the general election," and he doubted if most people understood some of its contents.

The call for "Austrian" economics was probably the most confusing reference, and many people might be wondering why these conservatives are including something positive from Europe, the home of those Godless socialists. It is rather odd that 8 of the 14 Austrian Economic Clubs in the world are in the U.S. with none in Austria.

Let us begin with the economics of post-war Austria as way to argue against what the Tea Party means by "Austrian" economics. Except for a nine year period in which the Social Democratic Party had an absolute majority, and 6 year period in which the conservative People's Party had an ill-fated alliance with the anti-immigrant Freedom Party, the these two major parties have ruled Austria in a "grand coalition" since 1949.

The two parties developed a welfare state with taxes taking 43 percent of GDP compared to 40 percent in other European Union countries. (The U.S. share is 28 percent.) At purchasing-power-parity Austria is the fourth richest country in the European Union and has, thanks to strong tax revenues, a most enviable budget deficit of 5 percent. Economic growth over 10 years and through the Great Recession has been a respectable 2.3 percent and unemployment is steady at 4.9 percent.

Austria's score on the Gini economic equality scale is comparable to the Nordic countries, which have the highest personal income taxes in the world. Economic inequality correlates strongly with incidences of mental illness, teenage pregnancy, educational failure, high abortion rates, high murder rates, increased infant mortality, social mistrust, large prison populations, and decreased longevity. Read about the recent study of this issue at www.roadrunner.com/~nickgier/SpiritLevel.htm. The authors of the study make a good case that in this case correlation means causation.

More than half the Austrian workforce is unionized, and workers and management follow the German model of "consensus" labor relations. Completely contrary to the Tea Party's "Austrian" economics, unit labor costs, according to *The Economist*, "fell by an astonishing 38 percent" from 1995-2005. Just like its huge neighbor Germany, Austria has maintained a strong manufacturing base with 19 percent of "value added to the economy" compared to the US and the UK at 13 percent. Starting in the 1980s the Austrian government wisely joined their colleagues in other countries in privatizing nationalized industries that were performing poorly.

The Tea Party means something very different by "Austrian" economics. They are referring to the Austrian economist Ludwig von Mises, who influenced free marketeers Milton Friedman, Ayn Rand, Ron and Rand Paul, and Alan Greenspan, long-time chairman of the Federal Reserve. Von Mises was one of the first to predict the collapse of Communism and he was right about the abysmal failures of the "command" economy. He stubbornly believed, however, that any government intervention in the economy would be disastrous. The world-wide success of the social democratic "Third Way" between Communism and unfettered capitalism stands as strong empirical disconfirmation of his theories.

Von Mises and Friedman insisted on calling themselves "liberals," from the Latin *liberalis* meaning "pertaining to the free person." In the 19th Century the liberals championed trade and free markets against the conservatives who were strong protectionists. Today the liberals of Europe—such as the British Liberal Democrats and the German Free Democrats—find themselves in the middle of the political spectrum after being pushed there by Social Democratic and Labor Parties.

Ayn Rand attended von Mises' seminars at New York University, and although most of her disciples call themselves "libertarians," Rand angrily rejected the term and insisted that her philosophy be called "objectivism." The term "libertarianism" is now in widespread use and has had a strong effect, starting with Ronald Reagan and "trickle-down," on conservative economic policies.

Libertarians admit that unregulated capitalism and minimal taxes creates large inequalities, but they believe that this provides an incentive for people to rise triumphantly the lower strata of society and get ahead. Those who are left behind have only themselves to blame.

In the post-war period a more equal America did see increases in social mobility, but since Ronald Reagan's election in 1980 it has dropped off dramatically.

A 2005 study demonstrated people in the Nordic countries are twice as upwardly mobile as the British and Americans. On a scale of 0 to 1, where 0 stands for complete mobility and 1 indicates total immobility, the US and UK scored .289 and .271 respectively, while the Nordic countries scored an average of .143. While only 25 percent of Americans born in the lowest economic 20 percent move out of the bottom, a full 40 percent of Danes do. There are fewer and fewer Andrew Carnegies: only 7 percent of Americans now make it from the bottom to the top 20 percent.

Von Mises would have been very disappointed in widespread inconsistent application of the principle of personal liberty among American conservatives. While they follow him in rejecting government the economy, they see no problem with having the government stick its nose into people's personal lives. Ron and Rand Paul, for example, deny a woman's right to choose an abortion and the right of gays and lesbians to marry. Strict libertarians protect personal liberty on both counts and stand for drug legalization, which the Paul and many Teapartiers oppose.

As former Idaho Senator Steve Symms used to say: "A liberal will permit you do anything you want with your body, but not everything you want to do with your money. A conservative will allow you to do just the opposite. Only the libertarian will let you do both." Early on Symms learned that consistent libertarianism did not play well in socially conservative Idaho and that the term "limited government" conservative was key to his election victories. Read more about the contradictory alliance between some Christians and libertarianism at www.class.uidaho.edu/ngier/libchristian.htm.

Libertarians believe that businesses are the best judge of their own interests and that, as rational actors, they will not do anything that will jeopardize their investments. This principle stood behind the Bush Administration's policy of voluntary self-regulation in industry. For example, the oil and gas industry has obtained exemptions from the Clean Water Act and other environmental laws, and its leaders have promised that they would stop using benzene as part of its fluid mixtures for fracturing gas-bearing rock. But in July, 2008, cancer causing benzene at 1,500 times safe levels was found in a Wyoming fresh water well in an area where Halliburton was drilling.

When Dick Cheney, former Halliburton CEO, was elected vice-president in 2000, he made sure that no environmentalists sat in on secret energy policy meetings. In those meetings Cheney recommended that the acoustic safety mechanism used by Brazil and Norway on their off-shore rigs was not necessary. Sure enough in 2003 the corrupt the Minerals Management Service—the sex and drugs was not the worst of it—concluded that "acoustic systems [each at \$500,000] are not recommended because they tend to be very costly." It is now clear that BP

had no back-up plans for the Gulf of Mexico disaster and that it has been a desperate “hit and miss” operation ever since the platform exploded. One could hardly say that BP has been a rational agent.

In testimony before a Congressional committee in 2008 Greenspan confessed that he was in a state of “shocked disbelief” that the unregulated markets that he had championed for years had failed. He admitted that he made "a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms." Even Adam Smith, founder of free market economics, believed that the British government should hire inspectors to make sure that clothing manufacturers held themselves to a high standard. Read about Smith’s deviations from libertarianism at www.home.roadrunner.com/~nickgier/MarxSmith.htm

Ideologues of all stripes are a stubborn lot so we have to admire Greenspan’s honesty. Today there are die-hard Communists who insist that the failure of Marxist-Leninist economics was due to a lack of theoretical purity and application. Libertarians also insist that countries that applied failed libertarian solutions, such as the U.S., Iceland, Ireland, and the Baltic States, did not go far enough in tax reduction, spending cuts, and deregulation. Both camps are living under grand delusions.

It is almost a cliché to say that the truth always lies in the middle, but Confucius, the Buddha, and Aristotle were right about the Golden Mean between extremes, and 60 years of economic facts continue to prove that the Middle Way between economic extremes is the best one to follow.

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