CAN GOVERNMENT INCREASE SOCIAL WELFARE (UTILITY) BY ITS INVOLVEMENT WITH PRIVATE MARKET?

AN ESSAY

Petri Kajander
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1 INTRODUCTION

"The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race." (Last words in Ludwig von Mises' Human Action; 1998, 881)

We are bound by the commonly accepted paradigms and beliefs that have become assumptions and a foundation that is not questioned anymore. This Whig theory expects that sciences are always going upwards and onwards each year going by and this movement in time results that everything is better now than before. Even though we are standing on the shoulders of the past intellectual giants we have no need to look back—there is nothing new to learn, it is all accumulated and distilled into our current knowledge. A paradigm can stay unquestioned for decades if not centuries but often there comes a time when anomalies are too big and obvious to be ignored anymore. Then the scientists need to shift their focus from tinkering and ever more specialised improvement of the existing theories back to basics. Physics are certainly in this phase now. Quantum theory does not make much sense—it cannot be tested sufficiently enough in nature. It is almost pure fiction based on mathematics. The same applies to the current state of economics. Most of it does not make much sense and it is mainly treated as a subclass of mathematics. Alfred De Grazia once stated that "much more is forgotten than is known." Are we sure that we have not missed something important? (Younkins 2005, 142-145)

The purpose of this essay is to address the role of government for private market and to find out the extent and the scope that government's involvement with private establishments can be justified by economics. It seems to be assumed that government has a fundamental and necessary role in the business of private enterprises. This is not merely an assumption—it is the current paradigm and dogma. This fact is not questioned in the economic studies and research anymore. It is part of the equation. Still, Murray Rothbard notes that "[t]here is a…well-known difficulty in philosophy and the social sciences which makes systematic error… likely: the infusion of emotions, value judgments, and political ideologies into the scientific process (Rothbard 1997, 198)." This claim gains even more substance when noted that the higher education is entirely monopolised by the state in many countries.

1.1 Methodology

This paper mainly questions something that is implicitly widely accepted. Therefore it cannot approach the study area from the same angle and by the same tools as the others. Albert Einstein once said that problems cannot be solved at the same level of thinking with which they were created. The current mainstream economics is mainly based on the legacy of Lord Keynes. Paul A. Samuelson has been (and still is) one of the main promoters of this line of thinking. Without going in detail it can be noted that much of the current economical tradition has its roots borrowed and copied from other sciences—mainly from natural sciences. The Newtonian mechanical view of the world still prevails in economics. But like in physics economics have two theories that do not fit together. Einstein's relative world does not interact with the unpredictable quantum physics. Similarly micro-and macroeconomics are mostly separate and certainly not an integrated theory. They rely on a static worldview (equilibrium is a balance without any movement) that needs to make assumptions that make the relevance of the theories questionable in the real world. How do you measure something that has no constant relations? Also, what kind of impact has free will to economical models?

This paper chooses the path less travelled: an Austrian approach. The Austrian school of economics was founded in the 1870's and 1880's. There are several historical reasons why the Austrian economics have not been widely known in the mainstream so far. Contrary to the popular trend at the time it gave more emphasis on the methodological and epistemological questions than other economists who favoured empirical positivist approach. This set Austrians apart from the main stream together with the fact that they continued to write fundamental treatises instead of focusing on narrow mathematical questions. No less important issue is the fact that Austrians stress the individual and her choices that have not been very popular themes in the 20th century. Nevertheless today

Austrians are able to provide a systematic treatise of economics, which is something that the mainstream schools of economic thought cannot do. And without an overview and systematic approach it is very difficult if not impossible to raise fundamental questions and reconsider assumptions. (Rothbard 1997, 200-201)

Mises once said that “[e]conomics deals with society's fundamental problems; it concerns everyone and belongs to all. It is the main and proper study of every citizen.” This is also why the current paper assumes as known less about the methodology and the Misesian theory than would otherwise be justifiable. The following approach is strictly speaking based on the Misesian paradigm[1] of praxeology that is developed further by Mises’ student, Murray N. Rothbard, who became the main Austrian theorist after his death.

[1] For more see Hans-Hermann Hoppe, *Praxeology and Economic Science* (Auburn, Ala.: Ludwig von Mises Institute, 1988); Hoppe, A *Theory of Socialism and Capitalism: Economics, Politics, and Ethics* (Boston: Kluwer, 1988); Hoppe, *The Economics and Ethics of Private Properly* (Boston: Kluwer, 1993); Joseph T. Salerno, “Postscript: Why Socialist Economy is ‘Impossible,’” in Ludwig von Mises, *Economic Calculation in the Socialist Commonwealth* (1920; Auburn, Ala.: Ludwig von Mises Institute, 1990), pp.51—71; Salerno, “Ludwig von Mises as Social Rationalist,” *Review of Austrian Economics 4* (1990): 26—54; Salerno, “Commentary: The Concept of Coordination in Austrian Macroeconomics,” in *Austrian Economics,* Richard Ebeling, ed. (Hillsdale, Mich.: Hillsdale College Press, 1991), pp. 325-43; Barry Smith, “Austrian Economics and Austrian Philosophy,” *Austrian Economics: Historical and Philosophical Background,* W. Grassi and Barry Smith, eds. (New York: New YorkUniversity Press, 1986), pp. 1—36; and Gordon, *Philosophical Origins of Austrian Economics.*

2 PRAXEOLOGY

2.1 Epistemology

> *"To begin with, departing from the procedure usually followed, one must distinguish the methodological from the logical problem.*
>
> *As a rule, methodology is understood to be logic conceived as the theory of the methods of thought." (Mises 2003, 74)*

Epistemology is concerned with human knowledge and more specifically of its origin, scope, and the crucial question where does it come from. Rationalism has its basis on reason—our knowledge does not come through our sensory perception. It is derived from principals that pre-exist in the human mind. Empiricism on the other hand states that everything we know is revealed to us via observation and experience.

Immanuel Kant criticised the empirical approach, supported among others by David Hume, and noted that experience is only the raw material for the mind and there needs to be something already in place in order to process the observational data. Kant defined this as *a priori* knowledge in contrast to *a posteriori* knowledge that is derived from experience. A proposition is *analytic* when the means of formal logic is enough to verify it, and in an opposite case the proposition is *synthetic*. This leads to a question how can one verify a proposition that is not based on any observational information and not having sufficient knowledge of it beforehand (*synthetic a priori*). (Kant 1781)

Kant stated that mathematics and geometry are examples of this category—they are truly *synthetic a priori*. He proved his claim by stating that these axioms are self-evident. This does not mean that the axioms are easy to find or to realise but only that they cannot be denied as self-evident without a self-contradiction: one needs to admit their truth implicitly while attempting to prove them wrong. *"Proving* means *making evident* something which is not evident. If a truth or proposition is self-evident, it is useless to attempt to prove it; to attempt to prove it would be to attempt to make evident something which is already evident (Toohey 1952, 60)."

Kant's postulate still requires inner reflection by the person and hence the self-evidence cannot be directly observed by others. Ludwig von Mises provided a solution by stating that these truths are not just inner workings of mind but the mind belongs to a man and his mental activities are grounded as categories of action by him. Humans act—is a true *synthetic a priori* axiom that cannot be denied without contradicting the self-evident claim by another action and thus implicitly admitting it. (Hoppe 1995, 8)

Praxeology, or the science of the logic of human mind, applied to the science of economics is based on deduction and according to Mises (1998, 32): "Its statements and propositions are not derived from experience. They are, like those of logic and mathematics, a priori. They are not subject to verification and falsification on the ground of experience and facts. They are both logically and temporally antecedent to any comprehension of historical facts. They are a necessary requirement of any intellectual grasp of historical events." Since praxeology is based on the fundamental, and true, axiom that individuals act it necessarily follows that all the propositions that can be deduced from this axiom must also be true (for example A being true and implying B, then B must also be true) (Rothbard 1997, 58-60). "What praxeology asserts with regard to human action in general is strictly valid without any exception for every action. There is action and there is the absence of action, but there is nothing in between (Mises 1962, 45)." Therefore the laws of economics science can only be formulated based on the apodictically known axioms out of which the other necessarily true laws will follow (Rothbard 1997, 25).

It is worthwhile to present some of the direct implications of the action axiom (for the entire deduced system of economics see Mises 1998). Action implies that it is purposeful; it is directed towards a goal and man uses means to reach his ends. By action he believes he can alter his present state and he has the knowledge to act so. Acting man uses exchange from one state of affairs to another state of affairs. This implies dissatisfaction for the current state of affairs as well as scarcity for the means. Action happens in time and since man is mortal time is scarce. Time is his means to reach his ends but the future is uncertain since if it were known he would not act. To reach the ends it is necessary to make choices, and in order to select between alternatives ranks of value are needed. Action is based on causal relationship between cause and effect—otherwise man could not act. "Let us note that praxeology does not assume that a person's choice of values or goals is wise or proper or that he has chosen the technologically correct method of reaching them. All that praxeology asserts is that the individual actor adopts goals and believes, whether erroneously or correctly, that he can arrive at them by the employment of certain means (Rothbard 1997, 59)."

Rothbard also notes that according to Mises only the fundamental axiom of action is a priori and there are a small number of subsidiary axioms that are broadly speaking empirical but de facto self-evident. "We may consider them in decreasing order of their generality: (1) the most fundamental—variety of resources, both natural and human. From this follows directly the division of labour, the market, etc.; (2) less important, that *leisure is a consumer good*. These are actually the only postulates needed. Two other postulates simply introduce limiting subdivisions into the analysis. Thus, economics can deductively elaborate from the Fundamental Axiom and Postulates (1) and (2) (actually, only Postulate 1 is necessary) an analysis of Crusoe economics, of barter, and of a monetary economy. All these elaborated laws are absolutely true. They are only *applicable* in concrete cases, however, where the particular limiting conditions apply (Rothbard 1997, 67; 103)." Why all the praxeological laws are qualitative in nature Rothbard gives the following argument (1997, 16): "Since the fundamental and other axioms are qualitative by nature, it follows that the propositions deduced by the laws of logic from these axioms are also qualitative. The laws of human action are therefore qualitative, and, in fact, it should be clear that free will precludes quantitative laws."

Economic theorist cannot use controlled laboratory experiment like natural scientist. It is impossible to keep the relevant variables of the social world constant and therefore a mental experiment is used: theorist keeps them constant in his mind. "In short, economics arrives at *ceteris paribus* laws: *Given* the supply, the price will change in the same direction as demand; *given* the demand, price will change in the opposite direction from supply (Rothbard 1997, 35)."
In physics simple facts can be isolated in the laboratory. These isolated facts are known by keeping all the other but relevant factors constant, but the laws to explain them are not. At best hypothesis can be formulated and they can be validated by controlled experiments. However, even though the laws explain the facts consistently the laws of physics cannot be absolutely established, Heisenberg uncertainty principal been just one

example. This means that physical laws need to be postulated in a manner that they or their consequents can be empirically validated. Still, these laws are only tentative, never absolute—explanatory at best. “But in the study of human action, as Mises shows, the reverse is true; here, we begin by *knowing* the causal laws: by knowing the fact of human consciousness, of free will, of motivated, purposeful action of human beings in using given means for the attainment of desired ends.” (Rothbard 1997, 25)

In human action there are only “historical” facts that cannot be isolated, neither verified nor falsified by any law. “The reason is obvious, as has been pointed out already. The historian can never derive theorems about cause and effect from the analysis of the material available. Historical experience is not laboratory experience. It is experience of complex phenomena, of the outcome of the joint operation of various forces (Mises 1962, 76).” Praxeology is in a different position since it has complete knowledge of its original and basic axioms. The causal laws are known, unlike in natural sciences, and this is the starting point—human consciousness based with free will and animated with motivational and purposeful action using given means to reach its desired goals. This enables praxeology to use deduction successfully and form absolute laws that are valid as long as humans act and exist.

Often it is claimed that praxeology is not scientific since it uses logic mainly in verbal and not mathematical and symbolic procedures. In physics mathematical operational steps are in themselves meaningless for their sole purpose is to explain and predict given facts. In praxeology the axioms are meaningful, true, and known. Therefore each step of logical deduction is meaningful and the meanings are better communicated by words than in meaningless formal symbols. In addition translating economic analysis into mathematical symbols and then retranslating them back for conclusions does not add value and like Rothbard comments that it “…violates the great scientific principle of Occam’s Razor that there should be no unnecessary multiplication of entities.” (Rothbard 1997, 213-215)

2.2 Values and Utility

Man uses means to pursue his ends. These means are scarce and he needs to make choices. Only individuals act, either alone or in a group, and the action of choice always concerns only particular and specific means in question. This process of choice results that he needs to value or prefer between different means. More urgent needs are satisfied before less urgent means. The scale of preferences can be called utility, welfare, satisfaction, happiness etc. The name is not important but the notion that there is an order of rank that is done only in acting and through acting. The choice is always between definite quantities or units that are valued subjectively dependent on the individual and the unique circumstances when the action takes place. Therefore each act of choice is different and has a unique subjective valuation. The value scale can be presented in a numerical format but these numbers are only ordinal, not cardinal. Ordinal numbers can only be ranked but they cannot be used for measurement. Therefore any comparison or measurement of change in welfare, happiness or value is not possible for any individual or group of people. For example, it is possible to say that getting financing increases the wellbeing of the company owners and its employees but it is not possible to tell "how much." In order to measure something one needs to have an objective unit of measurement. (Mises 1998, 119-123; Rothbard 2006, 17-21)

Traditional utility theory assumes the notion that mathematical "marginal" in differentials is equivalent to the "marginal" in marginal utility. In other words the total utility is the integral of series of "marginal utilities." This results that marginal utilities of goods can be differentiated and integrated among other arithmetical operations. This mathematical representation assumes and requires the notion of continuity (i.e. infinitely small steps). Rothbard disputes this by saying that "[h]uman action and the facts on which it is based must be in observable and discrete steps and not infinitely small ones. Representation of utility in the manner of the calculus is therefore illegitimate." "Marginal" does not refer to increments of utility but the utility of increments of goods which results that there is no measurability available whatsoever. (Rothbard 1997, 220-223)

Mises argues that the law of marginal utility does not refer to objective use-value but to subjective use-value. It is not concerned of a definite effect in general nor with the value of things but the value of the services a person expects to get from them (Mises 1998, 124-125).

Also he says that "[i]t is impossible to measure subjective use-value, it follows directly that it is impracticable to ascribe "quantity" to it. We may say, the value of this commodity is greater than the value of that; but it is not permissible for us to assert, this commodity is worth *so much* (Mises 1980, 58)." For example, it does not make any sense to say that I prefer my Porsche thousand times to Mercedes. Similarly "[m]onetary calculation is not the calculation, and certainly not the measurement, of value. Its basis is the comparison of the more important and the less important. It is an ordering according to rank, an act of grading (Cuhel), and not an act of measuring. … economic calculation does not rest on the measurement of values, but on their arrangement in an order of rank (Mises 2003, 169)."

The valuation process comprises of the subject doing the valuation and the objects of valuation. The subject can be an individual, a group of persons or their representative, a society or an agent such as state but from the perspective of the valuation the subject acts as a unit. Likewise the objects of the valuation process can be a complex bundle of various goods but from the perspective of the valuation process there are only two goods to be compared over each other. This process is inseparable from the subject and the objects and therefore consists of a unique action in time. There is no continuity or constancy between one act of valuation over another. Also, there is no valid basis to assume a constant valuation preference carried over time without any changes in subjective preferences and thus in actions.

The same constancy assumption can be found in the Revealed Preference theory, first introduced by Paul A. Samuelson (1938), used in questionnaires where people are asked to make choices (i.e. reveal their preferences) between different options (or goods since a good is any object of action) without need to make the real choices in practice. The weakness here is not only that people may not tell the truth but the valuation process also differs when one actually makes the choices in reality. (Mises 1980, 59; Rothbard 1997, 216-218; Mises 1998, 102-104)

Rothbard concludes for us the latter discussion together with arguments about indifference by saying that "[i]ndifference can never be demonstrated by action. Quite the contrary. Every action necessarily signifies a *choice*, and every choice signifies a definite preference. Action specifically implies the *contrary* of indifference. The indifference concept is a particularly unfortunate example of the psychologizing[2] error.

[2] Rothbard explains the term as follows (1997, 218): " …"psychologizing," the treatment of preference scales as if they existed as separate entities apart from real action. .. "Praxeology, the basis of economic theory, differs from psychology, however. Psychology analyzes the *how* and the *why* of people forming values. It treats the concrete content of ends and values. Economics,

Indifference classes are assumed to exist somewhere underlying and apart from action. This assumption is particularly exhibited in those discussions that try to "map" indifference curves empirically by the use of elaborate questionnaires.

If a person is really indifferent between two alternatives, then he cannot and will not choose between them. Indifference is therefore never relevant for action and cannot be demonstrated in action." (Rothbard 1997, 225-226)

Finally it is worth noting that like there is no such a thing as total utility, only relative and marginal, nor an actual choice can present any form of measurable utility—only an alternative being preferred over another (Rothbard 1997, 223; 220). Likewise there are no abstract actors in the market. Only individuals act and make value judgements based on their subjective preferences by any given choice of action they conduct. Mises reminds that "…on the market it is not mankind, the state, or the corporative unit that acts, but individual men and groups of men, and that their valuations and their action are decisive, not those of abstract collectivities. To recognize the relationship between valuation and use value and thus cope with the paradox of value, one had to realize that not classes of goods are involved in exchange, but concrete units of goods." The latter point refers to the fact that there are only specific individual goods exchanged not entire class of goods such as 'gold' or 'cars'. (Mises 2003, 163)

2.3 Ethics in Economic Science

> *"Ethics is the discipline, or what is called in classical philosophy the "science," of what goals men should or should not pursue. All men have values and place positive or negative value judgments on goods, people, and events. Ethics is the discipline that provides standards for a moral critique of these value judgments. In the final analysis, either such a discipline exists and a rational or objective system of ethics is possible, or else each individual's value judgments are ultimately arbitrary and solely a result of individual whim." (Rothbard 1997, 78)*

on the other hand, rests simply on the assumption of the *existence* of ends, and then deduces its valid theory from such a general assumption. It therefore has nothing to do with the content of ends or with the internal operations of the mind of the acting man."

The sciences are in themselves value-free and they provide laws about reality that can be used by those who make ethical judgements. Rothbard points out the role of praxeology which ”…is thus a unique discipline within the social sciences; for, in contrast to the others, it deals not with the *content* of men's values, goals, and actions—not with what they have done or how they have acted or how they should act—but purely with the fact that they *do* have goals and act to attain them. The laws of utility, demand, supply, and price apply regardless of the type of goods and services desired or produced (Rothbard 1997, 70).” There is no ethical guidance but only data to be used for individuals in their endeavour to achieve their goals and objectives according to their values and judgement.
It is not appropriate as an "…economist *qua* economist to make any ethical or value pronouncements or to advocate any social or political policy whatsoever (Rothbard 1997, 80).” Rothbard states that an economist has only two choices if she wants to step outside of the value-free position. She can either use her own ad hoc personal value judgement and use that clearly as the policy basis or turn into an ethicist and develop and defend a sound ethical system while using the data of economic science. In the latter case one cannot simultaneously act in the capacity of an economist without compromising the value free principal of science. He emphasises the importance of the matter by stating that: "…it is the responsibility of any scientist, indeed any intellectual, to refrain from any value judgment whatever *unless* he can support it on the basis of a coherent and defensible ethical system.” (Rothbard 1997, 80-82)

An example of ethical value judgement is to use Pareto's Unanimity Rule in economics[3]. The rule states that social welfare or social utility increases only if no individual is worse off and at least one person is better off after and because of the change. Lionel Robbins (1938) pointed out that this is possible only by interpersonal judgements and these are not possible with mathematical methods (e.g. subtraction, addition etc.) due to their non-cardinal (ordinal) nature. This results that an economist cannot state anything about the social utility (provided that there is no unanimity) or she implicitly and out of necessity compares the two groups of gainers and losers and by this act creates an ethical judgement of the groups' relative importance.
Jeremy Bentham was the first to introduce the famous concept "the greatest happiness of the greatest number" in his book "A Fragment of Government" in 1776. This is another example of an ethical value judgement. Felix Adler[4] points that " …sociologists frankly express their ideals in terms of quantity and, in the fashion of Bentham,

[3] In the cardinal sense.
[4] According to Rothbard in "Relation of Ethics", p. 673 by Felix Adler

pronounce the greatest happiness of the greatest number to be the social end, although they fail to make it intelligible why the happiness of the greater number should be cogent as an end upon those who happen to belong to the lesser number.“ Even using the unanimity principle per se is not a value free statement but a clear signal of ethical approval of the current state of the affairs, which is naturally based on the existing value norms and ethical systems. (Rothbard 1997, 233-235; 84-86)

2.4 Free Market and Intervention

“Freedom and liberty always refer to interhuman relations. A man is free as far as he can live and get on without being at the mercy of arbitrary decisions on the part of other people (Mises 1998, 279).” A contractual society is based on individual’s freedom and liberty. Mises continues: “[s]ocial cooperation under a system of private ownership of the means of production means that within the range of the market the individual is not bound to obey and to serve an overload (Mises 1998, 280).” In a voluntary society people are free in respect to each other but at the same time dependent on each other’s contribution. They are restricted by the natural phenomenon of scarcity (e.g. natural resources) but free while serving others by serving themselves. Still, “[a]s far as he gives and serves other people, he does so of his own accord in order to be rewarded and served by the receivers. He exchanges goods and services, he does not do compulsory labor and does not pay tribute (Mises 1998, 280).” Mises emphasizes that there is no other kind of freedom and liberty than the kind that market economy brings about—the rest are based on various degrees of hegemonic rule. (Mises 1998, 280-281)

All exchanges in the free market are voluntary. Both parties gain (or expect to gain) from the exchange since otherwise they would not conduct the exchange. Their very act of exchange demonstrates that both parties benefit—it shows their preferences. Rothbard calls this the demonstrated preference: the act of choice shows the value preferences. By concluding that every exchange in the free market is conducted voluntarily and all parties clearly demonstrate that they have benefited from their exchanges it can be deduced that the free market benefits all its participants. Therefore it is shown that the free market increases social utility. This conclusion can be drawn even by using the unanimity principal. (Rothbard 1997, 212; 240)

It is worthwhile to mention the "…fact that each man, in pursuing his own self-interest, furthers the interest of everyone else, is a *conclusion* of economic analysis, not an *assumption* on which the analysis is grounded (Rothbard 2006, 876)." This laissez-faire conclusion can be found in the works of Frédéric Bastiat, Edmond About, Gustave de Molinari, and Arthur Latham Perry among others. For example, About says[5]: "Now what is admirable in exchange is that it benefits the two contracting parties. . . . Each of the two, by giving what he has for that which he has not, makes a good bargain. . . . This occurs at every free and straightforward exchange. . . . In fact, whether you sell, whether you buy, you perform an act of preference. No one constrains you to give over any of your things for the things of another." (Rothbard 1997, 244-245)

Intervention means the substitution of coercion over voluntary actions in society. It is an intrusion of aggressive physical force and it implies that the subjects of the intervention would not do otherwise what they are forced to do by the aggressor. "In contrast to the free market, therefore, all cases of intervention supply one set of men with gains *at the expense* of another set. (Rothbard 2006, 880)."

The state is an exceptional institution in society apart from all other market participants in two ways. Firstly it has the sole right to interfere by using violence towards any actual or potential market exchanges between other people. Secondly, it alone uses coercion to obtain its revenues (mainly via taxation).

Above it was proven that voluntary exchange among people increases social benefit. Now it is time to show that any coercive action does the opposite. For this two cases are needed. In the first one market participants A and B are prevented by a threat of violence to carry out an exchange they both would have done without the intervention. This means that both A and B have suffered a lowered utility due to the violent intervention by the aggressor. In addition, the aggressor has achieved a gain (or at least an anticipated gain) from the intervention since otherwise the restrictive action would not have happened. The end result is that some of the parties have gained (the government) and some of them have lost. In the second case the aggressor forces the market participants C and D to make an exchange, which they would not have done

[5] According to Rothbard: Edmond Abou, *Handbook of Social Economy* (London: Straham, 1872), p. 104. Also, ibid. , pp.101-12; and Arthur Latham Perry, *Political Economy*, 21st ed. (New York: Charles Scribners's Sons, 1892), p. 180

otherwise. In this case the government has again gained and at least one of the exchange parties have suffered a loss in utility[6].

From these two cases it can be deduced that no government (or more generally no coerced) interference with exchanges can ever increase social utility. This can be extended into a more generic conclusion by including the fact that all government income is based on coercion and all its actions are dependent on this act of violence. Therefore it can be deduced that not any kind of government action can increase social utility (or welfare).

In summary can be stated that: 1) free market always increases social utility; and 2) no act of government can ever increase social utility[7]. (Rothbard 2006, 877-879; 1997, 242-244)

2.5 Government's Impact on the Market

Above it is shown that government cannot increase social welfare due to its violent nature. Even though it is not necessary to carry further with the analysis it is valuable to show some of the means how the government damages the voluntary society and creates discord.[8] This is especially relevant since the government seems to be almost ubiquitous in today's society.

There are only two ways to prosperity: the economic means (voluntary production and exchange) and the political means. The voluntary cooperation among market participants creates wealth to all its players according to the degree they serve each other in the society. There is no separate distribution process. Coerced confiscation of wealth hampers the production and exchange from their most efficient use to the degree of distortion. In addition it creates a new problem of wealth allocation that benefits those who are the most able to gain access and control of the state's distribution mechanism. There are many consequences for this action. Any kind of coerced wealth transfer benefits (e.g. subsidies from grants to licenses and monopoly rights) the inefficient at the expense of the efficient. For example a government-subsidised company can prolong its non-profitable operations and prevent the resources to be

[6] Nothing can be stated about the social utility.

[7] In other words "…the maintenance of *a free and voluntary market "maximizes"social utility* (provided we do not interpret "mazimize" in a cardinal sense) (Rothbard 1997, 244).

[8] For deductive proof see (Rothbard 2006 and Mises 1998)

shifted into a more value-productive use. Distribution of wealth departs the earnings from their most efficient use, which impacts the consumer who is not able to gain full satisfaction of wants: the larger the government distortion the lower the overall standard of living for everyone. This becomes obvious when government operations extend and people are shifting away their energies from production to the political game of distribution allocation (or loot). The new group of privileged increases the burden of the efficient. “In sum, governmental subsidy systems promote inefficiency in production and efficiency in coercion and subservience, while penalizing efficiency in production and inefficiency in predation.” (Rothbard 2006, 1254-1257)

Investment in praxeology means entrepreneurial activity that is used to buy producer’s goods and services, not to buyer’s own use and satisfaction, but to reshape and resell them to others, ultimately to the consumers. Coerced confiscation that directs resources to the aggressor’s own ends and purposes is no investing—they are consumption expenditures (or spending) no matter their intention or the end result. Government uses resources to offer services either “free” or charging a fee from its “customers.” It also acts as an owner and enterpriser. Government’s services that are offered “free” are not truly free goods in the economic sense. If they were free they would not be goods but abundantly available for everyone (such as air). Government goods are not paid by the customer but levied by taxation. Any price below the free market price results increased demand that eventually exceeds any supply level available. Only in governmental services and goods there are “shortages”, insufficiencies, deficiencies, and lack of availability—private enterprises always try to convince customers to buy more. Government has the problem of allocating its supply—it has no means to prioritise the most urgent uses and the most willing buyers from the submarginal users, which happens automatically by charging a price for the goods. In government’s services all customers are artificially set at the same level except that the users are subsidised at the expense of the non-using taxpayers. In the free market consumers dictate the price level. In addition the free market provides the ultimate profit-and-loss test: most urgent wants gain more revenues ensuring their increased supply in the future and less important needs receive little or no demand resulting finally discontinuity of the goods offered due to lack of funding (and consumer interest). Government does not have this type of critical guidance system to direct its resource allocation—it has no rational way to know how much to spend and when to stop.

Neither has it any way to act as if would be a private business. Private ventures can obtain funds only either from investors or from their paying customers. An investor risks his own money that he has saved and thus expects to receive it back from the company's anticipated future profits. Both the investor and the customer are allocating their resources to the means that serve them the most and hence they are at their most efficient use. Government does not obtain its funding from investors or consumers. It merely asks for more funds and then uses its coercive power to obtain the resources—it has de facto unlimited resources available at its whim. This means that government can only play private venture since it is not risking its own money—there is no entrepreneurial risk. Nor has its bureaucratic managers true incentives to adjust to the consumer demand, they are not dependent on the consumer satisfaction. As the funding for government operations is not coming from paying customers there is no urge to be efficient nor is there any reasonable mechanism to ensure that the quality and the values of the service suit the needs of its customers.

Government's unlimited funding capability puts it to a favourable position in respect to private enterprises—it has the power to drive out private businesses and hence to make private investors cautious who are considering future investments in the same industry. Alas, bureaucratic managers, politicians, and government's inherent inefficiency are not very appealing business propositions for investors considering government owned or operated private enterprises. (Rothbard 2006, 1259-1272)

3 SUMMARY

It has been shown that the economic science can produce absolute and definite facts or laws about human life in society. These facts are not dependent on time, place, person, or any other circumstances. They are true as long as humans act. These laws cannot be tested or proved by empirical evidence. In social sciences there are no constants and all circumstances are results of complex multiplex of factors and relationships. What happens now or in the past cannot verify or tell anything about the future—humans have free will and their values and choices are subjective. They are unpredictable unlike atoms that have known and constant properties.

What praxeology in economics can tell us is what kind of effects certain actions will cause. These laws are not dependent on the actor or the situation. This information can help man to make better choices for selecting the best means for his ends. Still, economics is not in place to make ethical or value judgements nor can it predict the future. Subjective preferences are qualitative and cannot be measured or compared between people. Therefore it is not possible to measure how much a certain action is better than any other action nor what action one should take. This would require a value judgement and economics is neither an ethical system nor the science of ethics.

It was proven that a voluntary cooperation among members of society benefits all the participants. If they were not to benefit from their voluntary exchanges they would restrain from acting. The very act of action demonstrates a preference and choice that also maximises the utility and is the most efficient use of the means. There are only two types of action: voluntary means to ends or acts of violence—nothing between. Any interference to the free market voluntary order by coercion will reduce social utility and result inefficiencies and finally a lowered standard of living for everyone. Coercive action divides people to those who benefit at the expense of others and to those who lose. Taxation is a form of coercive action and it is used by the government to fund its operations.

Any act of government whatsoever cannot ever increase social utility—it can only divide and break the peaceful and harmonious voluntary society. The maintenance of a free and voluntary market maximises[9] social utility and this applies to any type of voluntary exchange between any type or number of market participants including also any type of competition no matter whether “perfect” or against monopoly.

9 In the ordinal sense.

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