

Austrian Welfare Economics?: A Misesian Response

© J. Patrick Gunning
Department of Economics
Feng Chia University
100, Wenhwa Road, Seatwen
Taichung, Taiwan 407
R.O.C.
Email: gunning@fcu.edu.tw.
Homepages:

<http://knight.fcu.edu.tw/~gunning/welcome.htm>

<http://www.constitution.org/pd/gunning/welcome.htm>

Austrian Welfare Economics?: A Misesian Response

October 23, 2004

Abstract

Several neo-Austrian economists have proposed various standards for a special welfare economics to rival the welfare economics of the economics profession. This paper shows that two of these (Tyler Cowen and Israel Kirzner) contain implicit and vague definitions of social welfare that violate methodological individualistic principles. In addition, it argues that neo-Austrians misconceive the new welfare economics largely because they misconceive the role of equilibrium. Next, it shows that these neo-Austrian efforts are fundamentally different from the recommendations of Ludwig von Mises. Mises advised that economists should evaluate the logic of the arguments presented by others and should determine whether the arguments are relevant to the goal that the others want to achieve. They should evaluate arguments, not policies. Finally, it shows that Murray Rothbard's reconstruction of welfare economics is not based on Mises or subjectivism and that to follow it would render the fundamental task of economics, as Mises conceived it, impossible to carry out.

Austrian Welfare Economics?: A Misesian Response

Interest among neo-Austrian economists¹ in welfare economics is exemplified by four works: Murray Rothbard's effort to reconstruct welfare economics (Rothbard 1956), Israel Kirzner's suggestion that the norm of coordination be substituted for the Paretian-type norms of professional economics (Kirzner 1992), Tyler Cowen's effort to construct a non-Paretian welfare function, which may be partly based on Kirzner (Cowen 1991),² and Roy Cordato's "Austrian perspective" on welfare economics (Cordato 1992). Each of these, in one way or another, is critical of welfare economics as it has developed in modern professional economics. Another common feature is their neglect of Ludwig von Mises's position regarding the task of economics. Each of the above writers has sought a fundamental means of rendering judgments about policies or institutions to rival the judgments or ideologies that they perceive in non-Austrian professional economics. For Mises, however, - economics is value free. It employs logic and the principle of relevance to appraise the arguments of others.³

The purpose of this paper is to use a Misesian perspective to assess three of these neo-Austrian views – Cowen, Kirzner, and Rothbard.⁴ It will be argued that Kirzner and Cowen conceal what professional economists would call social welfare judgments, albeit they are vague. In other words, the authors do not succeed in presenting an alternative; they merely articulate vague goals like

¹This term seems to have been coined by Kirzner 1987.

²Cowen's 1991 paper refers to Kirzner's pre-publication manuscript. Cowen was also the author of welfare economics as "a field of research in Austrian economics" in the recently published Elgar Companion to Austrian economics. See Cowen 1994.

³He writes:

[The] postulate of *Wertfreiheit* can easily be satisfied in the field of the aprioristic science – logic, mathematics, praxeology [of which economics is a branch] – and in the field of the experimental natural sciences. It is logically not difficult to draw a sharp line between a scientific, unbiased treatment of these disciplines and a treatment distorted by superstition (Mises 1966: 48).

Also see Kirzner 1994 and 2001 (chapter 6).

⁴Cordato's book-length presentation is treated in depth in Gunning (2000a).

“innovation” or “a steady improvement of mankind” instead of more distinct and specific judgments related to individual wants and opportunities. The exercises are primarily a kind of verbal juggling. The reason may be that the authors do not appreciate the true significance of the new welfare economics. In any case the views stand in opposition to Mises’s value-free economics. Mises acknowledges that value judgments are necessary to judge whether a policy is good or bad. To maintain the value-free status of economics, he promotes an economics that evaluates not *policies* but *arguments* about the effects of policies. Thus he advocates an economics that differs from the neo-Austrians described above.

Mises’s distinct view of a value-free Austrian economics being concerned with evaluating arguments about effects and not policy has been obscured by Rothbard, who promotes a rather different welfare standard and who erroneously associates this standard with Mises. It is argued below that Rothbard’s welfare standard is irrelevant to the issue of making or appraising arguments related to market intervention. The paper also argues that Rothbard’s claim that his view is related to that of Mises is based on a misrepresentation of Mises’s views.

The paper is organized as follows. Part 1 discusses Cowen’s and Kirzner’s proposed alternative welfare standards. Part two reviews theoretical welfare economics with the intent of suggesting that some of the neo-Austrian criticism of the new welfare economics is misconceived. Part three reviews Mises’s statements regarding the goal of economics. Part four discusses Rothbard’s contribution. Part five presents a brief conclusion.

2. Examples of Neo-Austrian Welfare Economics

Cowen’s Tripartite Standard

Cowen presents “a tripartite standard based upon discovery/innovation, complexity, and provision of consumer goods” (Cowen 1991: 290-91). He describes each leg of his standard

separately and identifies what he calls its “desirable properties.” Because he provides reasons why the properties are desirable, we can surmise that his welfare criteria are more fundamental than he first suggests.

In the case of discovery/innovation, he gives three reasons for desirability: (1) that because discovery is incentive-driven, we are led to focus on the incentive systems possessed by different economies; (2) that empirical history indicates that public policies intended to increase resources devoted to discovery beyond some optimal limit have failed; and (3) that balanced discovery is likely to lead to the “healthiest all-round pattern of growth,” which he equates to “long-run sustainability” (*ibid.*: 291-2). Regarding the first reason, he does not tell us why he would like the analysis of policy to focus on incentive systems.⁵ Regarding the second reason, because of his use of the concept of an *optimal* limit of resources devoted to discovery and his claim that public policies have failed, he implicitly asks the reader to employ some unspecified social welfare criterion. What does he mean by “optimal,” one must ask? Since he is referring to public policy, it appears that he means “socially optimal.” And how is one to judge whether a policy has failed without a social welfare criterion? Regarding the third reason, he does not tell his readers why he believes that a balanced, healthy, or sustainable all-round pattern of growth is desirable. The growth of weeds is balanced, healthy, sustainable, and all-round. But is it desirable? It appears that he has in mind the growth of “social welfare,” although he does not say this.

His second property is complexity. He cites two reasons why this property is desirable. His first begins with the following sentence: “Policies which increase complexity are identified with the

⁵His brief analysis ends with the following statement: “Economies which allow participants to reap the benefits of welfare-improving activity will also generate significant quantities of innovation” (*ibid.*). Here he mentions “welfare-improving activity.” Because he is presenting an alternative to the social welfare ideas in modern professional economics, it is difficult to know what to make of this term. However, since he includes the qualifier “also,” “welfare improvement” does not seem to be his main criterion. So let us focus on “innovation.” He does not define this term. Joseph Schumpeter used it in reference to his concept of “development,” which he defined as the “carrying out of new combinations” (Schumpeter 1961: 66). If this is what Cowen has in mind, then this criterion would seem to reduce to a vaguely defined concept of social welfare (i.e., “development”). But whether he has this in mind is uncertain, since he does not himself define innovation. His procedure begs the question of how to define innovation and how such a definition relates to other welfare criteria. It is necessary to answer these questions in order to judge whether a policy is good or bad.

progressive development of an economic system, as empirical evidence indicates that successful economies are generally characterized by an extraordinarily high degree of complexity” (*ibid.*: 293). The criterion of desirability here seems to be “progressive development” and “success.” He does not define these terms. They suggest, as in the other cases, that he is implicitly asking the reader to employ some other unspecified social welfare criterion. The second reason for desirability is “its close relationship with innovation and discovery.” As he sees it, complexity and innovation are mutually reinforcing. Since innovation seems to imply some unspecified social welfare criterion, this reason seems to fit the pattern of implying an unspecified social welfare criterion. The question is: how do we use this criterion to judge a policy?

The third property is provision of consumer goods. Here he notes that “[s]ystems which do not manage to procure consumer goods for citizens must be judged as failures, regardless of any other virtues...” (*ibid.*: 293). This suggests that his ultimate standard in all of the above cases is “a long-run favorable impact upon the provision of consumer goods” (*ibid.*: 294). Now this seems similar to the standard welfare criteria that employ the production possibilities apparatus. However, since Cowen does not tell his readers how one is to determine what a consumer good is or why a system that does not provide them *must* be judged as a failure, since he writes nothing about the distribution of such goods, and since he does not explain how one might compare different collections of goods; the criterion is still largely unspecified and therefore lacking usefulness as a criterion for judging policy.⁶

The only sensible conclusion to reach about Cowen’s proposed non-Paretian welfare economics is that it ultimately, if partly implicitly, employs a notion of social welfare – one that does not differ in any obvious way from that used in modern welfare economics except perhaps by virtue of its lack of clarity.

⁶Cowen goes on to try to conceive of a welfare analysis without the assumption of exogenous preferences (*ibid.*). Such a conception would completely remove the methodological individualism that is ordinarily assumed in both professional and Austrian economic analyses of public policy. Moreover, if preferences are not taken to be exogenous, what could it mean to use the procurement of consumer goods as a criterion? It is difficult to know why he would go off in this direction.

Kirzner on the Norm of Coordination

Kirzner (1992) recommends what he calls the “norm of coordination,” which is based on his concept of the entrepreneur. He associates entrepreneurship with the reduction of error.

Unlike Cowen, he does not in the article write or imply that the reduction of error, entrepreneurship, or coordination, enhances “development,” promotes “growth,” makes the market economy more “healthy,” makes it more successful, or enables more consumer goods to be produced. However, he does make the following rather colorful statement. He writes that his *coordination* norm refers to the “process through which initially clashing, dis-coordinated activities are somehow being hammered out in a manner such as to approach a more smoothly dovetailing pattern of activities” (1992: 191). He ends his paper with the conclusion that the recognition of genuine error can be seen as “opening the door...for the possible reconstruction of normative economics along truly Austrian lines, i.e. in a manner fully consistent with (a) subjectivism, (b) methodological individualism and (c) an emphasis on dynamic processes” (*ibid.*: 192).

Although the “door may be open,” it is not evident to one who reads only this paper what the inside holds in store. Why should one care about such things as the reduction of error or coordination? The answer can be found in his earlier treatments of entrepreneurship and error, to which he refers toward the end of the paper (*ibid.*: 189). He “opens the door” to these earlier treatments with his reference to chapter eight of his 1979 book. Consider the closing paragraph of that chapter:

Only an economics that recognizes how the profit motive – by which we mean the lure of pure entrepreneurial profits – can harness entrepreneurial activity toward the systematic elimination of error can be of service in pointing the way to those institutional structures necessary for the *steady improvement of mankind* (Kirzner 1979: 136, italics added).

In case there is any doubt what he means by the “steady improvement of mankind,” consider his remarks in the following chapter:

Since individuals obviously differ in their entrepreneurial alertness, it is clear that opportunities for *social improvement* will tend to be exploited most fruitfully if institutional arrangements can be patterned so as to translate such opportunities into opportunities that will be encountered by those whose entrepreneurial alertness is the most acute, the most sensitive, and the most accurate” (*ibid.*: 149, italics added).

He does not define social improvement.

If Kirzner had gone on in his 1992 paper to repudiate his earlier statements about the improvement of mankind and social improvement, we might have reason to believe that he had not fallen into the same trap as Cowen. But he did not do this.⁷ His use of these terms indicate that his conception of the desirability of particular institutions is based on a similar non-specific notion of social welfare.

3. Welfare Economics and General Equilibrium

Some neo-Austrians appear to misunderstand the function of equilibrium in economics. They begin by pointing out correctly that real market economy interaction cannot be captured in the equilibrium model. The robots of the general equilibrium model are not actors. Their behavior is fully specified, or programmed, by the economist. It follows, they reason correctly, that to use the equilibrium model to represent a real market economy is an error. It is likewise erroneous to base predictions about the effects of a public policy on comparative static analysis.⁸ However, they go on to reason that because modern welfare economics employs the general equilibrium model, it must be

⁷It should be mentioned that Cordato includes a long discussion of what he regards as Kirzner's ideas related to welfare economics (Cordato 1992: 45-54). However, he relies almost totally on works that Kirzner wrote much earlier than those reported in this paper.

⁸Cowen points out that one of the "well known" difficulties of cost-benefit analysis is that "[o]utside of general equilibrium, prices will not accurately reflect the value of resources" (Cowen 1991: 285). Kirzner writes that the modern approach to welfare economics is based on Pareto optimality and that this approach, in turn, is based on a metaphor that transfers a concept of individual choice to a choice faced by society (Kirzner 1992: 183). The concept of societal efficiency that developed along these lines, he says, was indirectly criticized by F. A. Hayek when he pointed out that the information needed to make such a notion operational "is inevitably and definitely dispersed among many minds" (*ibid.*: 184). Cordato says that "[i]n the standard analysis, the welfare consequences of externalities are arrived at strictly by comparing the static equilibrium results that are obtained in the presence of externalities, *ceteris paribus*, with the Pareto optimum that is reached in [perfectly competitive general equilibrium]. But when markets are viewed as a dynamic, open-ended process this comparison becomes irrelevant for normative assessments of the real world" (Cordato 1992: 5). Only Rothbard does not discuss this issue.

misconceived. They do not consider the possibility that modern welfare economics (or at least some modern welfare economists) uses the model for a different purpose than to predict the effects of public policy. To see why such reasoning may be wrong, a review is necessary.

A Review of Modern Welfare Economics⁹

There seems to be wide agreement that welfare economics began with the publication of A.C. Pigou's *The Economics of Welfare* (1920).¹⁰ In opposition to Pigou's assumption that individual utilities can be compared, Nicolas Kaldor proposed the Pareto optimum principle as a more acceptable means of judging whether a public policy is good (Hicks 1975: 309). This was followed by discussions of possible schemes for compensating assumed losers. After this, the "old welfare economics" ended for all intents and purposes. It was replaced by the "new" welfare economics (NWE), championed by Abram Bergson and Paul Samuelson.¹¹ These writers and others produced "a systematic way of introducing from outside of economics various ethical norms (as embodied in what is called a social welfare function)."¹² The original social welfare function was designed to allow an individual to use his personally devised procedure for selecting among a number of alternative positions that *individuals themselves were assumed to regard as yielding maximum satisfaction* (or highest levels of indifference) (Samuelson 1956: 22).

⁹Jeffrey Herbener (1997) presents a type of history of welfare economics. However, because it is out of chronological order, the relationship between the earlier and the later developments is obscure.

¹⁰Hicks (1975: 308) pointed out that if welfare economics existed before Pigou, then it must have been known by a different name. Other economists have traced it to the British Utilitarians (Boulding 1952: 1).

¹¹See Bergson 1938, Samuelson 1947, and J. de V. Graaff 1967: 4-10.

¹²Samuelson 1952: 37.

Neo-Austrian economists generally believe that NWE assumes a hypothetical general competitive equilibrium. In order to help us understand whether this is true and its relevance, we must consider the details.¹³

The Production Possibilities Frontier

NWE begins by conceiving of the technical possibilities for producing goods independently of the satisfactions that individuals are assumed to receive from the goods. In doing so, it presumes to know which items are perceived as goods. The making of such an assumption immediately restricts the policy relevance of any theorems that NWE derives. Policy relevance is further restricted in the same way by the assumptions that it knows (1) which items and behaviors are perceived as factors of production and (2) the perceived technical possibilities of production. Finally relevance is restricted by the assumption that the goods are produced in the most technically efficient ways.

NWE defines the “highest amounts of goods” in terms of a *production possibilities frontier*. In a three-good case, for example, the frontier shows the greatest amount of a that can be produced, *given that specific amounts of b and c are already being produced in their most technically efficient ways*. To find the combinations of goods that lie on the production possibilities frontier, one can, roughly speaking, use the following procedure. Begin with a given quantity of one of the goods, say a . Then consider all of the combinations of b and c that can be produced with the remaining factors of production, given that the factors are used in the most technically efficient ways. Next, select a second amount of a and repeat the procedure. Continue to choose different amounts of a until all of the possible quantities of a have been considered. Repeat the procedure for b and c .

This procedure is often represented by the deceptively simple notion that we should imagine a collection of produced goods such that it is impossible to produce one more unit of one of the goods

¹³Perhaps the simplest presentation of NWE for a two-goods, two-person case is Bator 1957. His work constitutes the most direct reference for the reader interested in verifying the following discussion. Since the two-person case tends to oversimplify and since the aim of this presentation is to stress complexity, the discussion here adds an extra person and an extra good to the basic model.

without giving up a unit of some other good. What is important to realize, however, is that, in a case of n goods, the combinations on the production possibilities frontier is extremely large, even to the point of being unfathomable. Mathematicians pretend to make this number fathomable by substituting simple expressions or using models with only two goods. However, no competent mathematician is fooled by the simple expressions into thinking that there is a set of combinations that is mentally comprehensible in the sense of a real human being able to conceive of all of the separate combinations of different goods that lie on the production possibilities frontier in a real, modern economy. It is comprehensible only within the realm of pure mathematics.

F.A. Hayek (1945) has pointed out that no single individual could possess all the knowledge needed by the numerous market participants, at all levels of the structure of production, to produce the goods efficiently and in the efficient quantities. It would seem to follow that the production possibilities frontier is an imaginary construction that could have no counterpart in reality. This is true enough. The point to be made here, however, is that no one who reflects on the issue, including the welfare economists, would think otherwise, although they might not have the same reservations as Hayek about central planning.

The Utilities Possibilities Frontier

Starting with this incomprehensible combination of technically-efficiently-produced goods, NWE assumes that the individuals have preferences for each separate combination of the goods. Given these preferences, and for each of the unfathomable number of combinations of goods, we are asked to conceive of all of the possible ownership possibilities. Let us take an example of three goods that we shall assume lies on the production possibilities frontier: 10 units of a , 39 units of b , and 62 units of c . Further assume that there are three individuals: Mr. Chen, Mr. Lee, and Mrs. Wang. We might begin by imagining that Chen owns one unit of a , 35 units of b , and 21 units of c . The rest of the a , b , and c are distributed in some way between Lee and Wang. We are asked to imagine that the three people engage in costless bargaining and that they reach a distribution of the three goods where

it is not possible for any redistribution to benefit one person without harming the others. There are many possible distributions that satisfy this condition since the exact final distribution of goods that would result from such bargaining is not completely determinate.¹⁴ However, the possibilities are limited. For example, Chen would never agree to a series of bargains that leaves him with, say, the same amount of a and b , but less c than he started with. The possible distributions that could result from bargaining are described by saying that they “lie on the *contract frontier*.” Note that for each initial distribution, there is a very large number of combinations that lie on the contract frontier. Now we must derive a contract frontier for all of the other possible initial distributions of a , b , and c .

Of course, the real world contains many individuals and many goods. Thus if we tried to construct a contract frontier for all of the possible initial distributions of technically-efficiently-produced goods in the real world, we would have to build an image of an unfathomable number of combinations.

Once this unfathomable number of combinations is imagined, one can imagine narrowing the number down since some of the combinations would be inferior on the scales of preference of everyone to other combinations. The number of combinations that can be omitted is...well, unfathomable. The number of combinations that remain is less unfathomable than the original number. However, since an unfathomably unfathomable number of combinations had to be initially derived before it could be narrowed, the problem of computation is no less severe. The final, narrowed-down set of combinations of combinations is what NWE calls a *utilities possibilities frontier*.¹⁵

¹⁴It is said to depend on “bargaining strength.”

¹⁵Herbener’s description of the procedure of building the utility possibilities frontier is more technical than this but less technical than the usual description in the literature (Herbener 1997: 86-7).

Relevance

Clearly the idea of constructing a utilities possibilities frontier takes us far away from the realm of reality. No ordinary human being – not even a mathematical economist – could think that in building such an image, she is building a model of reality. What, then, is she doing? One answer is that she is trying to inform us about using individual preferences to make judgments about the outcome of production and exchange activities in a market economy. Even if we did not need to worry about how goods get produced – i.e., even if we only had to worry about distributing goods that were already produced according to the best known (from the standpoint of omniscience) methods of production – we could never figure out a final distribution that would be “best.” The best we could do would be to use our mathematical symbols to represent an unfathomably unfathomable number of possible best combinations.

It is true that some of the new welfare economists casually assert that we could tell which is best if we had a social welfare function. Perhaps for mathematicians who enjoy representing unfathomable possibilities with simple expressions, this assertion is not uninteresting. However, for anyone who understands the entire reasoning of modern welfare economics, the assertion is clearly irrelevant to policy. The term “social welfare function” must, at best, be regarded as the embodiment of the notion that an individualist who claims that some public policy is “good” must base his claim on an image that is unfathomable.¹⁶

Beyond this, one might ask whether it is necessary to build a mathematical model of such complexity just to support the conclusion that it is impossible to make public policy judgments on the basis of methodological individualism. If there had been no prior history of welfare economics, the answer would seem to be no. However, the Marshall-Pigou tradition of making judgments about

¹⁶Herbener seems to believe that Samuelson did not recognize that his complex mathematical exercises were irrelevant to the task of evaluating public policy (Herbener 1997: 87-90). He may be correct about an adventurous Samuelson. However, a more reserved Samuelson would surely see these exercises as irrelevant to the direct task, although relevant to the work of earlier efforts of economists in that direction. In any case, Herbener suggests that all the major parties involved in NWE believed that welfare economics had died by the mid-1950s (*ibid.*: 91). It seems more correct to conclude that they believed it had served its purpose of cautioning against using notions like consumers’ surplus to make broad judgments about economic policy.

public policy on the basis of partial equilibrium analysis naturally attracted the mathematical wizardry of economists like Samuelson, who build a large part of his reputation by mathematically generalizing various partial equilibrium notions that were in vogue among his contemporaries.¹⁷ This should be a useful point to recognize for Austrians, since *their* tradition of tracing the effects of a policy, step by step, by means of the deceptively simple concept of opportunity cost, implies a level of complexity that is substantially greater than that of the unfathomably unfathomable mathematical models.

The Neo-Austrian Critique is Misplaced

The Neo-Austrian view that there is a major flaw in modern welfare economics seems to be based on the fact that the general competitive equilibrium model has been used in applied policy analyses as a model of an economy. The policy analyst compares an image of a general competitive equilibrium in the absence of the policy with a general competitive equilibrium in its presence. He describes the effects of the policy in terms of the difference. However, the model was not intended for this use. To the masters in this field its purpose was to show that even if one knows the exact effects of a particular policy, he could not evaluate it without making a welfare judgment (i.e., without introducing a social welfare function). This conclusion is not sensitive to the fact that the NWE imaginary construction of an economy is unrealistic.

A virtue of the NWE imaginary construction is that it represents a high degree of complexity while at the same time being built on the assumption of methodological individualism. Of course, the individuals in the model are not human actors. They are automatons whose behavior or behavioral algorithms are specified in the model. However, there are many of them and they each have roles as consumers and factor-suppliers or producers. Thus, the model enables us to assess the practicality of

¹⁷Another example of this is Samuelson's "pure theory of public expenditures," which generalized the simplistic Lindahl model (Samuelson 1954).

using methodological individualism as a basis for using welfare judgments to judge the effects of a public policy

Social Welfare Judgments and Neo-Austrian Economics

Cowen and Kirzner use a different procedure for making judgments than that of NWE. However, since they want to evaluate the effects of public policy and since they apparently want to employ methodological individualism, they cannot avoid the difficulty of introducing social welfare judgments from the outside. Unfortunately, (1) by failing to point out that, in all real cases of public policy, some individuals would gain and others would lose according to their own standards and (2) by failing to appreciate the complexity of production and distribution; they give the impression to mainstream economists that Austrian economics is naive and even ideological. The latter impression – that Austrian economics is ideological – is directly opposite the view of Mises, to whose ideas this paper now turns.

4. Mises on the Role of the Economist

The various efforts of neo-Austrian economists to devise an Austrian welfare economics contrast sharply with the view of Mises. In Mises's view, the aim of economics is to evaluate the logic and relevance of policy proposals made by individuals who are concerned with the satisfaction of material wants. In other words, it is to *address the arguments of others* rather than to make arguments oneself. It is worth tracing out Mises's reasoning.

“The main objective of praxeology and economics,” Mises declared, “is to substitute consistent correct ideologies for the contradictory tenets of popular eclecticism” (Mises 1966: 185). This does *not* mean that the goal of economics is to build its own ideology. According to Mises, economics is a set of logical deductions. The deductions are about “what is,” given that economists

only build images that are relevant to the social facts one aims to describe. Ideology goes beyond the study of things as they are. It is “about the ought, i.e., about the ultimate ends which man should aim at in his earthly concerns” (*ibid.*: 178). Ideology can be distinguished from the broader concept of a *world view*, which is

an interpretation of all things, and as a precept for action, an opinion concerning the best means for removing uneasiness as much as possible...Religion, metaphysics, and philosophy aim at providing a world view. They interpret the universe and they advise men how to act” (*ibid.*: 178).

Ideologies may be of many types. Mises distinguished two classes: (1) asceticism and (2) non-ascetic ideologies. Economics is irrelevant to asceticism. It is relevant only to non-ascetic ideologies since these “must pay heed to the fact that *society* is the great means for the attainment of earthly ends” (*ibid.*: 179, italics added). The term “society,” or social cooperation, has a special meaning. It refers to individuals’ recognition that they can gain through specialization and the division of labor.¹⁸ In effect, Mises asserts that anyone who aims, through giving advice on public policy, to attain earthly ends must recognize the gains of specialization and the division of labor.

Because the other ideologies are concerned with “earthly ends;” if we want to evaluate them from a logical point of view, we must use economics (*ibid.*: 182-4). “It is the task of economics to expose erroneous doctrines in the field of social action” (*ibid.*: 93).

Thus, Mises is writing that the economist’s task is to evaluate the arguments put forth by those who we might call non-ascetic ideologists, i.e., by the ideologists who are concerned with the attainment of earthly ends. For these, “no appeal to any religious or metaphysical dogmas and creeds can invalidate the theorems and theories concerning social cooperation as developed by logically correct praxeological reasoning” (*ibid.*: 180).

How does the argument that economics is value free square with the popular view that Mises was an indefatigable advocate of *laissez faire*? In discussing the procedure of building an image of the pure market economy, Mises writes

¹⁸See Joseph Salerno 1990: 28.

It is true that economists have drawn from their investigations the conclusion that the goals which most people, practically even all people, are intent on attaining by toiling and working and by economic policy can best be realized where the free market system is not impeded by government decrees. But this is not a preconceived judgment stemming from an insufficient occupation with the operation of government interference with business. It is, on the contrary, the result of a careful unbiased scrutiny of all aspects of intervention (*ibid.*: 238).¹⁹

In other words, Mises argues that by analyzing arguments for intervention, the economist reaches the conclusion that “most people, practically even all people,” will best realize their goals in market systems where there is no government intervention. The economist’s conclusions about the market economy stem not from a value judgment but from the careful application of economic theory to the study of intervention, the evaluation of arguments favoring intervention, and an understanding of the effects that individuals expect intervention to achieve.

Although it may appear different to the uninitiated reader of *Human Action*, Mises for the most part stuck to a policy of evaluating the arguments of others rather than presenting specific arguments himself.²⁰ After presenting the imaginary construction of the market economy, he

¹⁹Statements like this one apparently led Murray Rothbard to interpret Mises as a closet majoritarian. “As a utilitarian, [Mises] made only one narrow value judgment: that he desired to fulfill the goals of the majority of the public...”(Rothbard 1976: 104). Although Mises was less careful in the quoted statement than in others that Rothbard criticizes, he nevertheless referred to the goals that individuals aim to achieve by means of public policy. In other words, a careful reading shows that Mises was writing about the conclusions economists reach by exploring whether people can actually use public policy to achieve the goals that *they themselves say they want to achieve*. Thus, contrary to Rothbard, the Mises of *Human Action* was not a majoritarian. Nor did Mises “presume to know the goals of either the majority of the public (*ibid.*) or of the advocates of a policy” (*ibid.*: 101). Instead, he presumes that individuals advocate an interventionist policy because they expect that it will help them achieve their goals. But the economist shows them that they are wrong. And by showing that so many are wrong about so many different kinds of intervention, the economist can reasonably conclude that the majority’s goals, as they see them, can be better achieved “where the free market system is not impeded by government decrees” (Mises 1966: 238, as quoted above). Thus Mises is *assessing the policy arguments* of the majoritarians or utilitarians by means of value free economics; he is not *evaluating policies* on the basis of utilitarian principles. When most neo-Austrians assert that Mises was a utilitarian, they merely appeal to authority. They cite Rothbard, Hayek (1974), or Leland Yeager (e.g., 2000). Hayek provides no documentation and admits that this is just an interpretation. Yeager provides references but in each case the reference is not to a passage in which Mises describes his own beliefs. It is to a passage in which he is describing the beliefs of the “old liberals.” Yeager interprets Mises’s endorsement of the old liberals contribution to economics as an endorsement of utilitarian ethics. However, he does not cite any passages that show this interpretation. For more on Mises’s aims and on other neo-Austrians who have made claims similar to Rothbard’s, see Gunning 2005a and 2005b.

²⁰See especially Mises’s discussion in 1966: 883. Kirzner (1976: 81-2; 84; 2001, Ch. 6) confirms this interpretation although Rothbard (1976), as quoted above, believed that Mises sought to combine a value free economics with a kind of utilitarian liberalism. If the reader has any doubt, however, he should consult Mises’s *Notes and Recollections*, where he discusses what later became his respective books on socialism, liberalism and interventionism. He writes:

In my analysis of these problems I introduced a new point of view, the only one that

discussed problems suggested by non-ascetic ideologists that were either evident in the literature or that might be thought up in order to try to support a particular intervention in the market economy. To enable his book to have the greatest effect along these lines, he could have organized it in a different way. After presenting the theory of the pure market economy and the theory of money and credit, he could have systematically dealt with a series of specific arguments. He could have begun each subsequent section by stating a specific policy argument and then evaluating it on the basis of logic and relevance. Although there are some chapters in which he takes this approach,²¹ he is not sufficiently systematic for the approach to stand out.

Have any noted economists followed Mises? The closest example this author could find was Lionel Robbins. In Robbins's view, the significance of economic science (i.e., of the logical propositions of the science) is that it "enables us to choose with full awareness of the implications of what we are choosing" (Robbins 1984: 152). Because individuals do not ordinarily have full awareness, Robbins argued, the economist adopts the role of an educator. Note the similarity between (1) Mises's view that economists should try to show whether the policies proposed by intellectuals who follow particular ideologies can achieve the goals implicit in those ideologies and (2) Robbins's view that economists should try to teach the effects of policies to individuals who otherwise would not be aware of those effects. The difference between the two is subtle. Whereas Mises targets the arguments of ideologists that favor or oppose particular policies, Robbins targets prospective unwitting beneficiaries and losers of policies who may have never formulated an argument.

allows a scientific discussion of these political questions. I inquired into the effectiveness of the chosen means to attain the avowed ends, that is whether the objectives which the recommended measures were to attain would actually be achieved by the means recommended and employed (Mises 1978: 114).

²¹This occurs in part six of *Human Action* on the hampered market economy. In his chapter on confiscation and redistribution, for example, he begins by describing the argument favoring these. The same is true in his chapters on syndicalism and corporativism and on public welfare. In the other chapters, however, the reader must be patient before learning the specific arguments that Mises aims to criticize.

Logic, Relevance, and Value Freedom

To claim that economics is value free in its dealing with policy arguments does not mean that economists can avoid making judgments. They must indeed decide which images of economic interaction are *relevant* in determining whether a policy will achieve its intended goal. Pure praxeological constructions are merely exercises in *logic*. They are independent of any particular manifestation in everyday life. However, when we apply these purely logical constructions to describe real economic interaction, we must make additional assumptions. Mises points out in his section on the “Procedure of Economics” that “the end of science is to know reality.” “Therefore, praxeology restricts its inquiries to the study of acting under those conditions and presuppositions which are given in reality” (*ibid.*: 65). As a result, in the presentation of its results, economics adopts “a form in which aprioristic theory and the interpretation of historical phenomena are intertwined” (*ibid.*: 66).²²

Now a policy argument requires a description or prediction of what will happen if a particular set of conditions prevail. The economist must build images of economic interaction under the assumptions (1) that the policy is adopted and (2) that it is not adopted. It follows that to use economics to analyze an argument about policy, one must make judgments about which images are relevant. To do this, he must make judgments about the particular conditions under which individuals act in reality. But these judgments are of an entirely different nature than the judgments described in welfare economics.

Mises and Welfare Economics

In Chapter 35 of *Human Action*, Mises writes that welfare economics amounts to an implicit denial of economics, as it was handed down by the old liberals and modified by the best literary

²²This procedure is discussed at some length by the author (Gunning 1991: 109-118).

neoclassical economists.²³ He begins with a statement that, in essence, tells how the doctrines of the socialist and interventionist propagandists have failed due to their bad economics. Rather than admit the failures, however, the propagandists have introduced the “welfare principle.”

Propagandists must finally admit that the market economy....[f]rom day to day....increases the quantity and improves the quality of products. It has brought about unprecedented wealth....But, objects the champion of interventionism, it is deficient from what he calls the social point of view. It has not wiped out poverty and destitution (Mises 1966, p. 833).

Instead of the allowing decisions about how to act to be based on the “profit principle” (i.e., to be made by entrepreneurship) these propagandists want them to be made on the basis of the “welfare principle.” However, if we try to add content to this welfare principle by employing some concept of utility that focuses on material well being, we must acknowledge the deductions made by economists about the market economy’s role in promoting that well being. In the market economy, each person must “adjust his conduct to the requirements of social cooperation and look upon his fellow men’s success as an indispensable condition of his own. From this point of view one may describe the objective of social cooperation as the realization of the greatest happiness of the greatest number.” In other words, we already know that the “immense majority of nonascetic people,” will better satisfy their wants by means of the market economy than by means of some alternative system. Thus, the next step is to study the profit principle under the conditions of the market economy.

Mises discusses what we have in this paper called applied policy analysis using the welfare economics terminology. He writes:

The plight of Western civilization consists precisely in the fact that serious people can resort to such syllogistic artifices without encountering sharp rebuke. There are only *two explanations* open. Either these self-styled *welfare economists* are themselves *not aware* of the logical inadmissibility of their reasoning; or they have chosen this mode of arguing *purposely in order to find shelter* for their fallacies behind a work which is intended beforehand to disarm all opponents. In each case their own acts condemn them.

There is no need to add anything to the disquisitions of the preceding chapters concerning the effects of all varieties of interventionism. The ponderous volumes of welfare economics have not brought forth any arguments that could invalidate our conclusions. The only task that remains is to examine the critical part of the welfare propagandists’ work, their indictment of the market economy.

All this passionate talk of the welfare school ultimately boils down to three points. Capitalism is bad, they say because there is poverty, inequality of incomes and wealth, and insecurity (*ibid.*, p. 833-835, emphasis added).

²³These include Carl Menger, J. B. Clark, Eugen Bohm Bawerk, Frank Fetter, and Frank Knight.

In short, Mises dismisses welfare economics based on utilities of individuals as either (1) an exercise in which the welfare economists are unaware of the mistakes in their reasoning or (2) an effort to mask their interventionist propagandizing. Referring to the first possibility, the error is due to their implicit denial that there are mutual benefits of exchange and the market system. To ask what economic policy a government should adopt by employing the framework of welfare economics is like asking what policy a lifeguard should adopt to help an olympic swimmer avoid drowning, given the assumption that the swimmer cannot swim.

We can summarize Mises's view as follows. Mises asserted that every socialist, interventionist, and classical liberal aimed to assure the satisfaction of material wants (or earthly ends) and to achieve progress (as they defined it). He argued further that interaction under the conditions of the market economy accomplishes these goals. For this reason, the study of social cooperation in the market economy is the starting point of economics.

In his characterization of welfare economics and the "welfare principle," Mises's target is not NWE but applied policy analysis that employs similar terminology. He says that the interventionist who employs a broad social welfare function while disregarding the benefits of laissez faire to the people does not comprehend the teachings of economics about the market economy. From the viewpoint of Mises's praxeological economics, the applied policy analysis of some welfare economists is likely to depreciate the traditional teachings of economics, which began by recognizing the benefits of a division of labor in the market economy.

5. Rothbard's Welfare Economics²⁴

Rothbard showed an appreciation for developments in the new welfare economics that was absent in the papers by Cowen and Kirzner. Giving due credit to NWE, he acknowledged that methodological individualism could not realistically be used to develop a welfare standard which could be applied in policy analysis. Not satisfied with this, however, he sought to “reconstruct” welfare economics on the basis of a welfare standard of his own making (Rothbard 1956: 248-9).²⁵ The discussion in this section aims to show not only that his new standard is incapable of being used to evaluate policy but also that his paper contained serious misinterpretations of Mises. It also describes works of other neo-Austrian economists, which have falsely associated Mises with Rothbard's effort, thereby disregarding or diminishing Mises's value-free economics.

Rothbard's “Reconstruction”

Rothbard's “reconstruction of utility and welfare economics” is based on the premise that economists should assume that whatever they observe people doing reflects their preferences, one-to-one. To Rothbard, this means that when they observe coercion, they must deduce that it cannot be beneficial, since coercion must be presumed to harm someone. When they observe exchange, they must deduce that it is beneficial because the parties to the exchange are benefitted (Rothbard 1976: 252). Rothbard extends this to claim that when economists observe people participating in the free market; they must deduce that the people have benefitted from their participation (*ibid.*: 250). He

²⁴Rothbard's paper has been criticized in detail by Cowen (1994: 306), Cordato (1992: 40-5), and David Prychitko (1993: 574-7). One of these will be discussed here in order to give the reader a better understanding of the principal problem with his analysis. Kirzner (1992) has also commented on Rothbard's welfare analysis. Defenders have been David Gordon (1993) and Herbener (1997).

²⁵One of the most remarkable things about this article is the high esteem it has achieved in the libertarian branch of neo-Austrian economics. Salerno, editor of one of the two major journals in neo-Austrian economics claims that this is one of two articles published in the 1950s that “merit notice for their substantive contributions to the edifice of Austrian economic theory” (Salerno: 2002: 116).

writes “(1) that the free market always increases social utility; and (2) that no act of government can ever increase social utility” (*ibid.*: 252-3).

At first glance, Rothbard’s welfare standard may seem rather simple and unobjectionable. However, closer examination of the nature of a modern market economy reveals that it is also irrelevant. There are three characteristics of a modern market economy that Rothbard seems to disregard. First, without the coercion of government, there could be no market economy in the modern sense. Second, private property rights can never be complete in a modern market economy. Although individuals may prefer a system with complete private property rights (and the uses of coercion it implies), their recognition of the costs or impossibility of producing such a system may lead them to favor a system with incomplete property rights. Third, the creation of new property rights – which requires the use of coercion in new ways – is a characteristic of any realistic image of the market economy. In other words, to *maintain* a market economy in the light of economic change requires a continuing alteration in the uses of government coercion (Gunning 2000b).

Given these facts, one who aims to evaluate a policy under realistic conditions according to any welfare standard must build images of interaction in which private property rights are not, or cannot be, enforced or in which they are too costly to be defined. To invoke a welfare standard that rules out coercion is to preclude the evaluation of policy altogether, at least in the world as we know it. The following discussion elaborates on this point.

Coercion is a Necessary Prerequisite for a Modern Market Economy

One of the conditions, or prerequisites, of the market economy is private property rights. Based on experience and perhaps knowledge of human nature, we are able to reason that a modern market economy requires a monopoly over superior force to insure the enforcement of private property rights. The costs of enforcing such rights may be partly borne by private parties. However, if the only enforcement was private, the prospects of both being a victim and a successful perpetrator of theft, robbery and extortion would, in turn, provide incentives for those who did not possess superior

force to employ resources to produce it. The ensuing military competition would not only be wasteful, it would reduce the prospective benefits of producing durable goods and resources, thereby limiting material wealth and progress. A monopoly over superior force could deter this. This monopoly is ordinarily what we have in mind when we refer to a government, or state. We assume that this entity possesses such power. Yet Rothbard conceives of a welfare function that would rule out government coercion. It follows that Rothbard's image of a market economy without the accompanying use of government coercion is unrealistic.

Incomplete Property Rights

Let us suppose that the enforcement of property rights somehow occurs without the use of government coercion or that the use of coercion for this purpose alone is somehow regarded as acceptable according to Rothbard's standard. Then there is a second problem due to the impossibility of completely enforcing private property rights. Experience and perhaps intuition inform us that to define and enforce all private property rights at a minimal cost is impossible. It is not economically feasible to enforce private property rights in all goods and factors. The operational question is which property rights should be established and enforced. Rothbard's exchange-coercion welfare standard renders such a question irrelevant. Consider a common property resource, like clean air. The fact that people live in an unhealthy, smoggy environment, by Rothbard's measure, would demonstrate that they did not want a rearrangement of property rights that would enable them to live in a healthy, cleaner environment. Realistically, however, clean air is a common property resource for which private property rights are either too costly or impossible to fully define and enforce. The important policy question is whether coercion should be used to try to enforce property rights in this resource. Yet according to Rothbard's standard, we would have to accept whatever private enforcement happens to emerge and to reject any alternative enforcement.

Rothbard's Response: A Misinterpretation of Mises

Since Rothbard actually deals with an issue of this type and since he refers to Mises in doing so, one is obliged to analyze Rothbard's treatment. We shall see that he misinterprets or misrepresents Mises's discussion.

Both Rothbard and Mises discuss the common property resource under the "external diseconomy" rubric. First consider Mises. Writing mainly about the case of pollution, Mises notes two causes of this external diseconomy: (1) lawmakers' intentions to grant special exemptions (presumably from common law) to polluting firms or (2) an unintentional effect of the traditional wording of laws (Mises 1966: 655-6). Mises goes on to say that when individuals and firms perceive external costs,

the economic calculation established by them is manifestly defective and their results deceptive. But this is not the outcome of alleged deficiencies inherent in the system of private ownership of the means of production. It is on the contrary a consequence of loopholes left in this system. It could be removed by a reform of the laws concerning liability for damages inflicted and by rescinding the institutional barriers preventing the full operation of private ownership (*ibid.*: 658).

Rothbard transforms this into the following: "These 'problems' [noise, smoke, fishing, etc.] are due to insufficient defense of private property against invasion. Rather than being the result of loopholes, they become, in Rothbard's discussion, the results of invasions of property. Moreover, these invasions are ruled out of the free market by definition" (Rothbard 1956: 259n).

The first point to note is that Rothbard inaccurately reports Mises's views. He is correct in implying that the problems are not a *defect* of the free market. They are at best a *characteristic* of the free market under certain conditions. Mises cites one condition – the traditional wording of laws. However, it is incorrect to say that Mises regarded such actions as *invasions* which are ruled out of the free market by definition. It is true that they are ruled out by the definition of the *pure, unhampered* market economy. In this imaginary construct, there is a complete set of legal rights to control all actions that have externally harmful effects.²⁶ However, when Mises turned to the issue of

²⁶See Mises's definition of the imaginary construction of the pure market economy at Mises 1966: 237-8)

the common property resource, he did not assume a pure market economy. It is clear from his discussion of the history of such situations that he envisioned the possibility that individuals would reach a stage when they considered the harmful actions taken under the conditions of a common property resource wasteful (*ibid.*: 657). From the standpoint of the definition of the pure market economy, external diseconomies may be treated as invasions of property; but from the standpoint of real people operating in real market economies where laws are “deficient,” – that is, in the environments where free markets really exist – external diseconomies are properly considered, according to Mises, either as the consequence of special privilege or of the traditional wording of laws.

It should be evident that whereas Rothbard takes an ethical approach to the problems associated with external diseconomy, Mises takes a non-ethical, realistic approach – i.e., an approach that recognizes the reality of an incomplete property system. Since Rothbard was at best misleading about Mises’s approach, we are led to ask whether there is any merit to Rothbard’s position, independently of his claim to be following Mises. It seems evident that there is not. To say that the common property resource situation is always an invasion of private property rights is to assume that private property rights in all resources already exist. For example, in the case of pollution, Rothbard must be assuming that, prior to the emergence of the external diseconomy, the rights to avail oneself of clean air are already established. No new delineation of rights is necessary. On what grounds can Rothbard make this assumption? Certainly not on the grounds of reality.

Creation of New Property Rights

Even if property rights at some particular time were complete, it is the nature of a market economy for individuals to want to avail themselves of the potential gains associated with creating new rights. Every contract entails the creation of new rights. Such new rights must often be enforced by the government monopoly over coercion. Even if these new rights need no government to enforce them, someone may claim that they interfere with existing rights and, consequently, that they violate

those rights. Who is to adjudicate such claims? And who is to enforce the judgments? It is difficult to imagine adjudication and enforcement of such new rights without a government. And it is difficult to imagine a progressing market economy without a continuing process of rights creation, adjudication, of claims, and government enforcement.

Mises on Demonstrated Preference: Another Rothbard Misinterpretation

Rothbard began his 1956 paper with the mistaken assertion that his notion of demonstrated preference was derived from Mises. The assertion was based on a misconception of Mises's views on the scale of values. To understand this error, consider Rothbard's two examples of demonstrated preference. (1) "[I]f a man chooses to spend an hour at a concert rather than a movie, we deduce that the former was preferred, or ranked higher on his value scale" (Rothbard 1956: 225). (2) "[I]f a man spends five dollars on a shirt we deduce that he preferred purchasing the shirt to any other use he could have found for the money" (*ibid.*). These two examples are fundamentally different. In the first, the reader is implicitly asked to put himself in the shoes of the chooser. If you choose, Rothbard implies, you must demonstrate your preference for the chosen alternative. In the second, the reader is implicitly asked to *observe* behavior. If you observe someone's behavior, Rothbard asserts, you must agree that he had a preference to perform it instead of some alternative. A moment's reflection indicates that while making a choice necessarily implies preference, the existence of observable behavior does not necessarily imply either choice or preference. A person could behave in a particular way on spontaneous impulse, as a result of operant conditioning, through reflex, or out of habit. Choice implies preference in the sense that the preference is a causal factor in the choice. In the first example, the assumption that the individual chooses implies preference. In the second example, behavior may or may not imply preference. To support a claim that it does, one must judge that the behavior was chosen.

Mises surely did not believe that one can deduce preference from *behavior*. In constructing his logic of action and economics, he *assumed* that behavior is chosen and therefore preferred. He did

not suggest that economists study or observe behavior and “deduce” that the behavior was preferred. He confined economics to the study of action, which he *assumed* to be always chosen.²⁷ The praxeological economist assumes all behavior to be chosen. It is true that economics entails the application of praxeology to real situations. Serious economics is not simply the construction of logical images. The images must be relevant to everyday life (Mises 1966: 65). Accordingly, to evaluate an argument for or against market intervention, the economist must include behavior that is not chosen. However, he does not regard the existence of such behavior as demonstrating that the behavior has specific preferences to perform it.

Rothbard seems to have based his interpretation on some passages in *Human Action* where Mises dealt with ideas of rationality and consistency of preferences. Mises was considering the argument that if *a* is preferred to *b* and *b* is preferred to *c*, then logically *a* must be preferred to *c*. In his section entitled “The Temporal Relations Between Actions,” Mises pointed out that this argument is wrong because “two acts of an individual can never be synchronous” (*ibid.*: Mises 1966: 103). In other words, this argument is *logically* correct but *praxeologically* irrelevant.

Rothbard interpreted Mises’s statements about preference as support for his notion of demonstrated preference (Rothbard 1956: 229). However, Mises was not writing about demonstrated preference; he was merely pointing out the error involved in not accounting for the fact that action takes time and that two actions, or choices, cannot occur at the same time. Thus an individual could never, in the same action, face a choice between *a* and *b* and also between *b* and *c*. The fact that one of the choices must occur in an action at a later time means that one’s preference may change.²⁸

In spite of the clear difference between Rothbard and Mises, Rothbard concluded his discussion by saying that the “clearest and most thorough formulation of the concept [of

²⁷Failure to appreciate this fact has been a persistent source of confusion, particularly in mainstream economic discussions of Misesian methodology. See the author’s discussion of Bruce Caldwell’s assessment of Misesian methodology 1989: 169-170.

²⁸Herbener recognizes this in his criticism of indifference analysis when he points out that “subjective preferences of different alternatives depend upon the individual’s situation. Each time that environment changes, so can his entire preference ranking” (Herbener 1988: 104).

demonstrated preference] has been in the works of Professor Mises” (Rothbard 1956: 229). This assertion is not supported by Mises text. Perhaps because of Rothbard’s status in neo-Austrian economics, a number of neo-Austrian writers have been led to think that Rothbard’s work on welfare economics is based on Mises, apparently without exploring the original Misesian text.²⁹ Regrettably, this is not the only serious misinterpretation of others’ work in Rothbard’s paper.³⁰

Herbener’s Defense

Herbener has recently presented a spirited effort to resurrect Rothbard’s reconstruction. One of Herbener’s main arguments – that policy judgments under NWE are based on the assumption of general equilibrium (Herbener 1997: 93) – has been discussed earlier in this paper. One can agree with Herbener that the use of the general competitive equilibrium model to make policy predictions is irrelevant because it disregards the market process. However, a critique on these grounds does not invalidate its use to demonstrate the impracticality of using methodological individualism to construct a criterion for evaluating policy.

Herbener’s second argument is that, under the assumption of private property rights and freedom from coercion, each successive situation will represent an improvement corresponding to the notion of Pareto superiority (*ibid.*: 98). In other words, he asserts that every exchange represents an improvement for the exchanging parties. What Herbener seems to regard as his telling defense of this argument comes in a discussion of Cordato’s critique of Rothbard. He considers the case of a person

²⁹Examples are Osterfeld 1988: 78; Cordato 1992: 40-1, 50; Prychitko 1993: 572; and Herbener 1997: 81-82, 104.

³⁰Rothbard wrote that Robbins reintroduced Pareto’s unanimity rule. He went on to refer to the “Pareto-Robbins unanimity rule” (*ibid.*: 244-5). He even provided two separate references to Robbins’ work, apparently to give the appearance of having researched this matter. Yet this is an absolutely misleading characterization of Robbins. What Robbins sought to do was to persuade economists to “better realize the exact connection between the normative and the positive” (Robbins 1938: 203). I was unable to find any reference in Robbins to the Pareto criterion or anything resembling it, although there are several references to Pareto’s writings.

Rothbard also misinterprets Robbins’s discussion of ordinalism and cardinalism. Rothbard wrote in effect that Robbins conceded the measurability of utility (Rothbard 1956: 235), when in fact Robbins was writing that an individual can judge his own utility (Robbins 1953: 104). Herbener (1997: 90) seems to have copied this misinterpretation.

who, having demonstrated a preference for participating in the free market, comes to demonstrate regret over the loss-making actions he performed in that context due to his lack of entrepreneurial insight (*ibid.*: 101). Herbener concludes: “That such losses occur in no measure diminishes the conclusion that the free market renders the greatest satisfaction of individual preferences *compared to any other institutional arrangement for social interactions*” (*ibid.*). To Herbener, the individual’s behavior of participating in the free market demonstrates his preference, even though he now regrets his actions performed in the free market context.³¹

Although this argument may be sufficient to deal with Cordato’s criticism, it does not get to the heart of the matter. There are two problems. First, a person may prefer a system that protects her from the consequences of her errors. If her only options are to participate in a free market system or not to have such a system, she would prefer to participate rather than to rely on self sufficiency. However, she may prefer a system in which she has some measure of taxpayer-provided protection.³² Second, the concept of a free market is not unambiguous. As we have noted, a complete property system is not only unachievable but, due the enforcement costs, also likely to be undesirable to those who participate in it. Because of this, the practicality, or relevance, of Herbener’s argument, like Rothbard’s, is questionable. The fact that people participate in a market economy that has a particular set of private property rights does not imply that they prefer that economy over one with a slightly different set.

³¹Herbener does not actually use the term demonstrate in this context. However, the fact that he subscribes to the demonstrated preference theory (Herbener 1997: 95) suggests this as the only reasonable interpretation.

³²It is instructive to cite Mises on this issue. Mises wrote:

There are, as has been shown, cases in which a restrictive measure can attain the end sought by its application. If those resorting to such a measure think that the attainment of this goal is more important than the disadvantages brought about by the restriction – i.e., the curtailment in the quantity of material goods available for consumption – the recourse to restriction is justified from the point of view of their value judgments. They incur costs and pay a price in order to get something that they value more than what they had to expend or to forego. Nobody, and certainly not the theorist, is in a position to argue with them about the propriety of their value judgments (Mises 1966: 755-6).

6. Conclusion

The task of the economist, as understood by Mises, is to determine (1) whether the logic of a particular argument for some policy is correct and (2) whether the policy is relevant to the goal that the policy proposer says he wants the policy to achieve. Such a task can be pursued from a completely value free stance. However, the various welfare economics proposals of neo-Austrian economics would demote this task. And for what purpose? We have seen that two proposals (Cowen and Kirzner) contain implicit, though vague, references to social welfare. We have also seen that Rothbard's proposed welfare economics denies economists the capacity to evaluate policy arguments. The conclusion is that the neo-Austrian efforts to develop an Austrian welfare economics seem to be an unfortunate waste that cannot but reflect badly on those neo-Austrians who are genuinely involved in the task of evaluating policy arguments. Moreover, neo-Austrian criticisms of the new welfare economics are misplaced.

References

- Bator, Francis M. (1957) "The Simple Analytics of Welfare Maximization." *American Economic Review*. 22-59
- Bergson, Abram. (1938) "A Reformulation of Certain Aspects of Welfare Economics." *Quarterly Journal of Economics*. 52: 310-34.
- Boulding, Kenneth E. (1952) "Welfare Economics." In Bernard F. Haley (ed.) *A Survey of Contemporary Economics*. Homewood, Illinois: Irwin.
- Cordato, Roy E. (1992) *Welfare Economics and Externalities in an Open Ended Universe: A Modern Austrian Perspective*. Boston: Kluwer Academic Publishers Group.
- Cowen, Tyler. (1991) "What a Non-Paretian Welfare Economics Would Have to Look Like." In Don Lavoie (ed.). *Economics and Hermeneutics*. London: Routledge.
- Cowen, Tyler. (1994) "Austrian Welfare Economics." In Peter J. Boettke (ed.) *The Elgar Companion to Austrian Economics*. Brookfield, Vermont: Edward Elgar Publishing Company.
- de V. Graaff, J. (1957) *Theoretical Welfare Economics*. Cambridge University Press.
- Gordon, David. (1993) "Toward a Deconstruction of Utility and Welfare Economics." *Review of Austrian Economics*. 6 (2): 99-112.
- Gunning, J. Patrick (1989a). "Mises on the Evenly Rotating Economy." *Review of Austrian Economics*. Vol. 3: 123-35.
- Gunning, J. P (1989b) "Professor Caldwell on Ludwig von Mises's Methodology." *Review of Austrian Economics* 3: 163-76.
- Gunning, J. Patrick. (1991) "Praxeology, Economics, and Ethical Philosophy." In Ebeling, Richard M. (ed.). *Austrian Economics: Perspectives on the Past and Prospects for the Future*. Hillsdale, Michigan: Hillsdale College Press.
- Gunning, J. Patrick. (2000a) "Roy Cordato's 'Austrian' Critique of Coase on Social Cost." *Review of Austrian Economics*. 13 (2): 175-192.
- Gunning, J. Patrick. (2000b) "The Property System in Austrian Economics." *Review of Austrian Economics*. 13 (2): 209-220.
- Gunning, J. Patrick. (2005a). "How to Be a Value-Free Advocate of Laissez Faire: Ludwig von Mises's Solution." *American Journal of Economics and Sociology*. 64 (3).
- Gunning, J. Patrick. (2005b) "Did Mises Err? Was He a Utilitarian?: Reply to Block." *American Journal of Economics and Sociology*. 64 (3).
- Hayek, F. A. (1945) "The Use of Knowledge in Society." *American Economic Review*. 35 (4)

Hayek, F. A. (1952) *The Counterrevolution in Science*. Glencoe, Ill.: The Free Press.

Hayek, F. A. 1994. *Hayek on Hayek: An Autobiographical Dialogue*. Edited by Stephen Kresge and Leif Wenar. Chicago: University of Chicago Press, and London: Routledge.

Herbener, Jeffrey M. (1988) "Austrian Methodology: The Preferred Tax Type." *Review of Austrian Economics*. 2: 97-111.

Herbener, Jeffrey M. (1997) "The Pareto Rule and Welfare Economics." *Review of Austrian Economics*. 10 (1): 79-106.

Hicks, J. R. (1975) "The Scope and Status of Welfare Economics." *Oxford Economic Papers*. 307-26.

Kirzner, Israel. (1976) "Philosophical and Ethical Implications of Austrian Economics." In E. Dolan (ed.) *The Foundations of Modern Austrian Economics*. Kansas City: Sheed and Ward.

Kirzner, I. (1979). *Perception, Opportunity, and Profit*. Chicago: University of Chicago Press.

Kirzner, Israel (1987). "Austrian School of Economics." in J. Eatwell, M. Milgate, and P. Newman (ed.) *The New Palgrave: a Dictionary of Economics*. London: Macmillan.

Kirzner, Israel M. (1992) "Welfare Economics: A Modern Austrian Perspective" in Israel M. Kirzner (ed.) *The Meaning of the Market Process: Essays in the Development of Modern Austrian Economics*. London and New York: Routledge. 180-192.

Kirzner, Israel. (1994) "Value-Freedom." In Peter J. Boettke (ed). *The Elgar Companion to Austrian Economics*. Brookfield, Vermont: Edward Elgar Publishing Company.

Kirzner, Israel M. (2001) *Ludwig von Mises: The Man and His Economics*. Wilmington, DE: ISI Books.

Menger, Carl (1981). *Principles of Economics*. Translated by James Dingwall and Bert Hoselitz. New York: New York University Press. (Originally published in German in 1871)

von Mises, Ludwig von (1966). *Human Action: A Treatise on Economics*. Chicago: Henry Regnery Company.

Mises, Ludwig von. (1978) *Notes and Recollections*. South Holland, IL: Libertarian Press.

Osterfeld, David. (1987) "'Social Utility' and Government Transfers of Wealth: an Austrian Perspective." *Review of Austrian Economics* 2: 79-95.

Pigou, A. C. (1938) *The Economics of Welfare*. London: Macmillan (4th edition).

Prychitko, David. (1993) "Formalism in Austrian-School Welfare Economics: Another Pretense of Knowledge." *Critical Review*. 7 (4): 567-592.

Robbins, Lionel. (1953) "Robertson on Utility and Scope." *Economica*: 99-111. Reprinted in Robbins (1974) *Economic Science and Political Economy: Selected Articles*. Edited by Susan Howson. London: Macmillan.

Robbins, Lionel. (1984) *An Essay on the Nature and Significance of Economic Science*. (Third edition) London: Macmillan.

Rothbard, Murray N. (1956) "Toward a Reconstruction of Utility and Welfare Economics" In Mary Sennholz (ed.) *On Freedom and Free Enterprise*. New Jersey: D. Van Nostrand. Reprinted in Rothbard (1997) *The Logic of Action I: Method Money, and the Austrian School*. Cheltenham UK: Edward Elgar.

Rothbard, Murray N. (1976) "Praxeology, Value Judgments, and Public Policy." In E. Dolan (ed.) *The Foundations of Modern Austrian Economics*. Kansas City: Sheed and Ward.

Salerno, Joseph T. (1990). "Mises as Social Rationalist." *Review of Austrian Economics*. 4: 26-54.

Salerno, Joseph T. (2002) "The Rebirth of Austrian Economics – In Light of Austrian Economics." *The Quarterly Journal of Austrian Economics*. 5 (4): 111–28.

Samuelson, Paul. (1947) *Foundations of Economic Analysis*. Cambridge: Harvard University Press.

Samuelson, Paul A. (1952) "Comment (on Welfare Economics)" In Bernard F. Haley (ed.) *A Survey of Contemporary Economics*. Homewood, Illinois: Irwin.

Samuelson, Paul A. (1954) "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*. 36: 387-9.

Samuelson, Paul A. (1956) "Social Indifference Curves." *Quarterly Journal of Economics*. 70.

Schumpeter, J. A. (1961) *The Theory of Economic Development*. Cambridge: Harvard University Press. Originally published in German in 1911.

von Mises, Ludwig von (1966). *Human Action: A Treatise on Economics*. Chicago: Henry Regnery Company.

Mises, Ludwig von. (1978) *Notes and Recollections*. South Holland, IL: Libertarian Press.

Wieser, Friedrich von. (1927) *Social Economics*. New York: Adelphia Co. (first published in German in 1914)

Yeager, L. B. (2000). "The Moral Element in Mises' *Human Action*." In Richard B. Ebeling. *Champions of Freedom: Volume 27*. Hillsdale, MI: Hillsdale College Press.