Journal of Prices & Markets (2013) 1.1: 58-69

Non-excludability, Externalities, and Entrepreneurship: An Overview of the Austrian Theory of Common Goods

Jakub Bożydar Wiśniewski[1]

Abstract: According to the neoclassical economic theory, common goods would be underproduced by the market in the absence of a monopoly of force capable of coercing every able member of society to contribute to their provision. By applying both the methodological tools developed by the Austrian School of Economics and the tools used to investigate the institutional robustness of various systems of political economy, I shall argue, first, that the neoclassical characteristics of common goods are based on a number of false assumptions or unacceptable oversimplifications, and second, that even if they were correct as stated, they would not establish the desirability of the existence of a monopoly of force.

Key words: Monopoly; common goods; externalities

1 King's College London. Email: jakub@cantab.net.

1. Introduction

Perhaps the most common argument describing a putatively beneficial function performed by a monopoly of force refers to its alleged ability to supply society with certain crucial, otherwise unattainable classes of goods. There are many names to designate such goods and many ways to categorize them, but for my purposes I shall regard them as falling into two relatively broad classes – club and common goods, which together constitute the category of public goods.

Various theorists writing on the subject in question identify the said goods according to various characteristics – Malkin and Wildavsky (1991) provide an illuminating insight into the degree to which there is no final agreement on the matter. While in general the literature on public goods is "terminologically over-endowed" (Hummel 1990, p. 90), which engenders a great deal of semantic confusion, I believe that it is fair to say that since the publication of Samuelson's classic articles on the subject (Samuelson 1954, 1955), one strand of terminological convention has come to dominate the picture. According to this convention, club goods are defined as possessing the characteristic of joint (or non-rival) consumption (Buchanan 1965, Olson 1971, Berglas 1976, McNutt 1999), while common goods are defined as possessing the characteristic of non-excludability (or the existence of related externalities) (Musgrave and Musgrave 1980, Kim and Walker 1984, Ostrom 1990).

It is often claimed that these two characteristics give rise to the corresponding two types of market failure – in the case of club goods some people are excluded from consumption even though they would not generate any additional costs for the producer, while in the case of common goods the social gains, including the gains of free riders, outweigh the private gains of the producer, which undermines the incentive to produce in the first place. Thus, a monopoly of force is expected to intervene and coerce every able member of society to contribute financially in order to secure a sufficient supply of the goods in question. Absent such a monopoly, the argument goes, the results are bound to be sub-optimal (see, e.g., Willis 2002, pp. 161-3; Arnold 2004, pp. 720-3; Ayers and Collinge 2004, pp. 555-9).

By applying the methodological tools developed by the Austrian School of Economics, in what follows I shall argue, first, that the above characteristics of common goods are based on a number of false assumptions or unacceptable oversimplifications, and second, that even if they were correct as stated, they would not establish the desirability of the existence of a monopoly of force, since, even if we were to disregard the positive-normative distinction, the alleged common goods can be produced more efficiency in a purely market-based system.

1. A comparative institutional analysis of common goods production

Non-excludable (common-pool) goods are alleged to generate positive externalities – that is, they are said to be capable of benefitting free riders, who cannot be excluded from using what they refuse to pay for. Thus, the crucial question in this context is: is the existence of free riders sufficient for discouraging private individuals from engaging in the production of such goods?

Before exploring this particular issue, let us focus for a while on the following, preliminary objection – one might suggest that I am far too quick in dismissing the possibility of efficient production of common goods by a monopoly of force. One might argue that as soon as the market price system and the underlying intersubjective value determination mechanism is in place, the monopoly of force can estimate the monetary value of the otherwise unproducible common goods by noting the difference in prices of various non-common goods in the period before and after the appearance of the relevant positive externality. Think, for instance, of the difference in the value of a real estate before and after the establishment of an infrastructural network in its vicinity (Smerk 1965, p. 241).

Could the monopoly of force engage in the efficient production of common goods on the basis of the above procedure? As I see it, there seems to be a number of serious problems plaguing this proposal. First of all, since the market data – including most notably the tastes and preferences of consumers – are in constant flux, the managers employed in gathering them would have to engage in the process of endless and constant surveillance of ever-changing prices and even the pre-transaction opinions of prospective buyers and sellers. Moreover, they would have to be able to identify and winnow out every conceivable factor other than the appearance of a specific positive externality that could influence the price of any given surveyed non-common good at the same time as the externality in question. This is obviously not an insurmountable task for the private sector, where "prices afford a highly effective system of signals that obviate the need for the transmission of detailed, factual information to decision makers" (Kirzner 1988, p. 4), but it appears as a daunting challenge for a centralized, public agency.

Moreover, it has to be realized that even if the employees of the monopoly of force were able to keep up to date with all the relevant prices and capable of eliminating every intervening irrelevant factor from their analysis, their estimation of the would-be price of any given common good would, entrepreneurially speaking, already belong to the past. And while very important for the entrepreneurs, "the prices of the immediate past are for them only the starting point of deliberations leading to forecasts of future prices" (Mises 1996, p. 336). The question to be asked in this connection, then, is: could a manager employed by a centralized, coercive agency appraise future prices just as efficiently as a private entrepreneur? It appears to me that the answer is: yes, he could, provided that he were as independent and unconstrained in his decision-making as a private entrepreneur; that is, if he were free to "establish corporations and other firms, enlarge or reduce their size, dissolve them or merge them with other enterprises; (…) buy and sell the shares and bonds of already existing and of new corporations; (…) grant, withdraw, and recover credits" (ibid., p. 704), as well as bear the full financial consequences of engaging in any of the above activities. This, however, he is incapable of doing by definition, since he is not the owner of the assets he manages, but only their temporary caretaker. As a result, it is difficult to conceive of the possibility that his forecasts (as opposed to his forecasting skills) could be even marginally as accurate as that of a full-blooded businessman.

Hence, we can see the unworkability of the procedure of, say, levying a more or less arbitrary tax on the public in order to finance the production of a given common good and then returning the surplus to the taxpayer as soon as the monetary value of the common good in question is determined on the basis of the increase in value of the goods and assets affected by the relevant, newly emergent positive externality. The crucial point here is that a given amount of money paid in taxes today is not equivalent in value to the same amount of money returned to the taxpayer in the future,[2] and since a manager employed by a monopoly of force is in no position to appraise the future value of tax money on the basis of its present value, it can easily be claimed that the whole tax-produce-and-return procedure would result in sub-optimal social outcomes. In fact, in addition to the manager's inability to determine what constitutes a "due" compensation to the taxpayer, what also raises doubts about the workability of the procedure in question is the fact that imposing a tax on the members of any given society is bound to change the value rankings of its members. Thus, their valuations of the goods and assets affected by the appearance of a given positive externality are going to be conditioned by the preceding tax imposition, and hence useless as a benchmark for determining the "tax-neutral" value of the common good that generates the externality in question.

Furthermore, a point should be made about the unsuitability of the use of econometric equations in the context at hand. The crucial assumption underlying the nature of the events they purport to analyze is the possibility to abstract from them in order to produce a series of random occurrences (i.e., all openings of new segments of road infrastructure, all creations of public parks, etc.) and then study them in terms of 'class probability', where "we know, or assume to know, with regard to the problem concerned, everything about the behavior of a whole class of events or phenomena; but about the actual singular events or phenomena we know nothing but that they are elements of this class" (Mises 1996, p. 107). Only provided such an assumption would it be possible to measure the extent to which the introduction of any given common good is supposed to raise the value of the surrounding assets. It is the case, however, that the events in question are in their nature unique and discrete, thus being at most amenable to study in terms of 'case probability', where "we know, with regard to a particular event, some of the factors which determine its outcome; but there are other determining factors about which we know nothing" (ibid., p. 110). Not belonging to any homogeneous collectives the probability of occurrence of whose particular members tends asymptotically towards fixed limits, where such limits are not affected by any place selection (Mises 1957, Hoppe 2007), such events are not amenable to analysis in terms of the probability calculus.

Next, it should be borne in mind that any coercive interference with the social system of voluntary

2 Even if we were to assume that the tastes and preferences of the public are constant over time, intertemporal variation in the value attached to any given good would result from the existence of positive time preference (Böhm-Bawerk 1890).

transactions (including interferences aimed at the production of common goods) is bound to generate a number of what might be regarded as negative externalities – e.g., erosion of respect for property rights (Malkin and Wildavsky 1991), diminution of entrepreneurial incentives (Hoppe 1989, ch. 4) and distortionary effects on profit-and-loss calculation (Salerno 1993, p. 131). The disutility thereby created is, of course, a subjective quantity, unamenable to cardinal measurement, but since the processes leading to its creation by definition prevent some mutually beneficial interpersonal interactions, it can nonetheless be objectively identified as a disutility. On the other hand, since the putative utility derived from the existence of positive externalities is also subjective, and since, *ex hypothesi*, people are supposed to be unwilling to pay for the production of common goods, it cannot really be said from the third-personal point of view whether the existence of any supposed common good benefits society on the whole.

2. Demonstrated-preference-based welfare theory: an exposition

In addition to the above points, if, pace Rothbard (1956), we confine our analysis of economic efficiency to the study of actual transfers of property titles as revealing the underlying preference rankings of the involved parties (while dismissing the attendant third-party verbal declarations, complaints, approvals, etc., as amenable to psychological investigations only), then the very notion of positive externality turns out to be purely psychological, while the notion of negative externality appears reducible to the effects of violating one's property rights. What follows is that the only potentially efficiency-enhancing role that a monopoly of force could play when it comes to securing the existence of the optimum amount of common goods would be protecting legitimate property titles. However there are ample reasons to be critical of such a proposal too, thus suggesting that the institution in question cannot perform effectively even this comparatively limited, though crucial role (Tannehill and Tannehill 1970, Rothbard 1973, Friedman 1989, Hoppe 1999, Murphy 2002, Stringham 2007, Hasnas 2008).

It should be noted that the above remarks apply equally well to another, slightly different version of the theory of common goods, the one according to which the defining feature of a common good is that the benefits it produces are 'diffused', i.e., impossible to impute to individual beneficiaries. The following statement encapsulates the view in question: "If it were agreed that the benefits from highway improvements are (…) diffused among inhabitants of a state (…) [then] highways should be supported from the general fund" (Netzer 1952, p. 109).

Against this view, it can be said that if no individual beneficiaries of a given, supposedly common good can be identified, it seems worthwhile to ask whether there are any serious grounds for thinking that any such beneficiaries exist at all. After all, non-action on the part of any given agent can be given a number of mutually exclusive psychological interpretations of how he feels vis-à-vis the putative good in question (Fielding 1979). He might be interpreted as genuinely enjoying its consumption by means of (by definition undetectable) free-riding. But he might equally well be interpreted as being indifferent towards it or even as passively hating its presence. And even if he were to say that he regards the good under consideration as very valuable and that he would willingly pay in taxes for its production and maintenance were it not for the existence of other free riders, who routinely damage its quality, we cannot therefrom conclude that the utility he would derive from coercing other free riders to contribute would exceed the disutility the latter would derive from being coerced. Furthermore, if the notion of diffused benefits is to be treated seriously, what is to stop us from treating literally every good we can think of as a common good? If such benefits are undetectable by the persons concerned, is there a principled reason to deny the claim that they are present in every human activity? Consequently, is there any non-arbitrary stopping point for the monopoly of force tasked with the provision of common goods? What seems to me to testify to the strength of this reductio ad absurdum is the fact that presumably very few people would be willing to advocate a centralized, "public" production of, say, evening suits and computer software on the grounds that it cannot be disproved that these goods generate unrealized benefits for people other than their buyers and the immediate surroundings of the latter.[3]

Finally, it could be argued that the notion of diffused benefits was invented in order to bring

3 It might be claimed, for instance, that the masses benefit greatly from an increase in the availability of all sorts of knowledge due to the proliferation of computer software even though they do not realize the extent of these benefits, since computers have already become quite commonplace objects.

utility theory and welfare economics in line with the mathematical modeling methods espoused by the neoclassicists. If graphs such as cost curves and revenue curves are to be analyzable by means of differential calculus, they have to be plotted as smoothly continuous, which results in depicting economic action as consisting of a series of infinitely small steps. This, in turn, is entirely consistent with the claim that economic benefits, even if infinitely small and thus unnoticeable, can nonetheless be regarded as "real" (Block 1983, p. 22). However, this attempt at imparting mathematical elegance to economics comes at the price of falsifying the image of human action, which "can occur only in discrete, non-infinitely-small steps, steps large enough to be perceivable by a human consciousness" (Rothbard 1960, p. 167). In other words, as long as any given event remains unnoticed by the person concerned, it does not enter her realm of decision making and hence cannot be regarded as in any meaningful sense beneficial to her.

It might be argued in response that neoclassical economists are justified in using continuous functions to represent various aspects of human action since in a repeated game setting actions and their results do become increasingly small, the consequence being that a function will become more continuous (though perhaps not "fully" continuous) as long as the action is repeatable. However, there are a number of problems with this suggestion. First, repeated game settings can be justifiably thought of as artificial environments, thus having little relevance for analyzing the operation of human action in the realm of everyday, real-world scenarios. Second, there seems to be something inherently dubious in talking about repeatability of action in the sense of fitting its particular instances into homogeneous classes of events, since every instance of human action is a paradigmatic example of a unique event, caused to happen by a unique, time-bound and agent-relative set of beliefs, desires, judgments, and preferences. Finally, if we analogize repeated game settings to institutional frameworks whose formation leads to the emergence of highly conditioned patterns of behavior, the existence of such frameworks can be plausibly regarded not as an economic good, but rather as a "*general condition* of human action and human welfare" (Rothbard 2004, p. 5). Consequently, it cannot be thought of as imparting any benefit to an agent, but rather as being a condition of that agent benefiting from the consumption of scarce goods. In the context under discussion, the same can be said about unnoticeable positive externalities.

3. Demonstrated-preference-based welfare theory: criticisms and answers

The above considerations seem to me to make a strong case for the superiority of the approach confined to the study of preferences demonstrated in concrete actions over the neoclassical approach.

It might be argued, however, that my preferred method faces a number of conceptual difficulties as well. Firstly, if no objective interpersonal comparisons of utility can be made, then even if it can be claimed that every voluntary transaction is utility enhancing, it does not necessarily follow that no coerced transaction can be even more utility enhancing. In other words, while it is true that every voluntary transaction increases the utility of all transacting parties (hence being a positive-sum game and a Pareto-superior solution) and that every coerced transaction increases the utility of the coercer and decreases the utility of the coerced (hence being a non-positive-sum game and a Pareto-inferior solution), it cannot be denied that if in the latter case the coercer is a "utility monster" (Nozick 1974, p. 41), an enormous amount of utility he derives from the act of coercion might be sufficient for outweighing the disutility incurred by the coerced. To generalize this point, even though within the analytical framework under consideration we can regard every voluntary transaction as efficient, by the same token we cannot regard every coerced transaction as *in*efficient – we can at most suspend our judgment concerning the efficiency of the latter (Caplan 1999). This, in turn, leaves us with a somewhat disconcerting conclusion that we cannot consider, say, Soviet war communism as a disastrously ineffective economic system.

I believe that the above criticism rests on a misunderstanding of what Pareto-inferiority really means. Pareto-inferior scenarios are not those in which both parties to a given transaction lose, but precisely those in which one party gains and the other loses, and this can happen only as a result of one party coercing the other to do something against the latter's will. A scenario in which both parties to a transaction lose in the ex ante sense is praxeologically impossible, since "acting man is eager to substitute a more satisfactory state of affairs for a less satisfactory. His mind imagines conditions which suit him better, and his action aims at bringing about this desired state" (Mises 1996, p. 13). Thus, it appears to me that the only useful and informative way of understanding the concept of Pareto-inferiority is the one in which we apply it to social interactions whose results, given the impossibility of performing interpersonal comparisons of utility, are indeterminate (as opposed to positive, characteristic of Pareto-superior interactions).

In view of the above clarifications, we can see that within the subjectivist, demonstrated-preference-based framework of thinking about welfare economics, Soviet war communism can be considered disastrously ineffective in the sense that under such a regime all (or most) social interactions are coerced and thus no (or very few) increases in social utility can be said to take place. Under a free enterprise system, on the other hand, every social interaction can be said to increase social utility, because under such a system every social interaction is a voluntary exchange of legitimate property titles. Consequently, within the framework in question it is perfectly justifiable to regard free enterprise arrangements as highly conducive to economic efficiency.

Another criticism of the approach adopted here says that since the coerced cannot, by definition, demonstrate by their actions that they prefer not being coerced (since they are rendered passive by coercion), in view of the methodological framework under consideration it cannot be determined what happens to the utility of the coerced. In every non-voluntary transaction, the coercer is the only active party, i.e., according to the critic, the only party capable of demonstrating through its actions whether it prefers the post-coercion state to the pre-coercion state. Furthermore, since the coercer clearly demonstrates that he prefers the post-coercion state to the pre-coercion state, we seem to reach a troubling and counterintuitive conclusion that every coercive transaction is Pareto-superior, strictly parallel in this regard to every voluntary transaction (Kvasnicka 2008).

I can think of two points that might be made in response. First, it can be claimed that the coerced do demonstrate that they object to being subject to coercion. Their engagement in activities such as tax evasion, the use of tax havens, looking for loopholes in the tax law, joining black or grey markets, etc., seems to provide ample testimony to this assertion. However, an immediate counterargument here might be that as soon as we invoke the abovementioned activities, which can assume the form either of ex ante precautions or of ex post reactions, we start to compare two systematic processes stretched over time – systematic coercion and systematic attempts to avoid that coercion – rather than two kinds of interactions undertaken at specific time points. The problem with the welfare analysis of processes is that it involves making intertemporal comparisons of utility, together with the attendant unwarranted assumption that the preference rankings of the involved parties are constant over time. The subjectivist, demonstrated-preference-based welfare theory expounded in this paper avoids making the said assumption precisely by focusing on specific time points at which specific voluntary or coerced interactions take place.

Thus, in order to defend the claim that coercive interactions are necessarily Pareto-inferior, we need to show that the coerced suffer a utility loss precisely at the moment in which they are coerced. One way of doing this could consist in making the critic realize the following: as long as the owner of the property title X does not trade X for something else or give it away, he demonstrates that he prefers keeping it. Hence, by coercively appropriating X, the coercer can be objectively shown to frustrate the original owner's preferences. After all, if the original owner were willing to part with X on his own, there would be no need for coercion – the would-be coercer could obtain X by means of trade or as a gift. In other words, "that he [the original owner] is not demonstrating a preference for the transfer in the case of aggressive violence used against him is inferred from his initial property ownership and that aggressive violence is an implicit, non-consensual claim on his property" (Herbener 2008, p. 61). In sum, non-action with respect to one's property implicitly presupposes that one prefers to keep the property in question, even if one does not actively use it at a given moment.

One might claim that the above argumentation applies only to the overt, explicit kinds of coercion such as assault or burglary, but not to the more implicit and imperceptible ones, such as taxation – after all, judging by the way in which most of the people submit their tax forms, it might be thought that they are doing so voluntarily as far as the observation of preferences expressed in actions goes. Such a contention, however, disregards the fact that a credible threat of violence is a type of violence in its own right. To think of a vivid analogy:

> Suppose someone approaches you on the street, whips out a gun, and

> demands your wallet. He might not have molested you physically during this encounter, but he has extracted money from you on the basis of a direct, overt threat that he *would* shoot you if you disobeyed his commands. He has used the threat of invasion to obtain your obedience to his commands, and this is equivalent to the invasion itself. (Rothbard 1998, p. 78)

Hence, insofar as the threat of imprisonment and even more intense expropriation in the event of disobedience constantly hovers above the taxpayers, their seemingly uncoerced payments cannot be truly considered as such.

Let us now move to another possible objection, which is the following: even though undertaking a certain action demonstrates that the agent prefers a given outcome to the available alternatives, it does not imply that as a result of achieving this outcome his utility increases overall. Think about the example of a few firms forming a voluntary cartel on the market and raising the prices of their products. Even if after the emergence of the cartel consumers continue to patronize it, thus demonstrating their preference for buying a certain good at a "natural monopoly" price over not buying it at all, it appears difficult to maintain that they are better off after the formation of the cartel than they were before it took place.

What this objection seems to overlook is that the welfare theory under consideration says only that every voluntary transaction is Pareto-superior within given momentary conditions, which are brought about by the preceding interpersonal transactions (voluntary or otherwise). It does not say, however, that those preceding (or subsequent) transactions cannot impose some sort of psychological disutility on a given person and alter his preference ranking. It cannot be guaranteed that, psychologically speaking, one will find the conditions prevailing at time *t* more favorable than the conditions prevailing at time *t-1*. The crucial point is that as long as one is permitted to act freely at *t* and *t-1*, each of those actions is going to be Pareto-superior, even though, holding other things constant, it is possible that one's action at *t-1* is going to be capable of bringing him greater subjectively perceived satisfaction than his action at *t*.

Next, let us consider an interesting criticism based on the claim that even assuming that any coercive regime is necessarily less conducive to the promotion of social utility than a fully voluntary regime (since the latter, unlike the former, consists exclusively of mutually beneficial and thus Pareto-superior transactions), the same assertion cannot be made with respect to comparisons between various regimes belonging to the continuum stretching from pure voluntarism to extreme coercivism. For example, both a minarchist system and a social democratic system represent a mix of voluntary and coercive transactions, i.e., a mix of Pareto-inferior and Pareto-superior transactions. The same can be said about, on the one hand, a regime in which attempts at aggression against legitimate property holdings are successfully fended off, which results in preserving the existing pattern of ownership, and, on the other hand, a regime in which such attempts are successful, thus changing the said pattern.

Now, even though it is clear which system in both of the abovementioned pairs involves more (successfully carried out) initiatory violence, it would seem that the ordinal character of utility and the non-comparability of individual utility rankings (Mises 1980; Herbener 1997; Rothbard 2004, pp. 18-20) do not allow us to say on purely economic grounds that either of the regimes in question generates more or less welfare than the other. This is because all these social arrangements are strictly symmetrical insofar as they result in mixes of individual gains and losses, and discounting the value of the aggressors' preference scales vis-à-vis the value of the non-aggressors' preference scales appears to be an arbitrary, logically unjustifiable move. Again, two points can be made in response. First, it may be suggested that social arrangements can be classified as better or worse with regard to utility maximization depending on the extent to which they approximate the ideal type of pure voluntarism - hence, according to this criterion, minarchism is better than social democracy, the system that successfully fends off the actions of aggressors is better than the one that does not, etc. However, this answer might appear to be somewhat evasive insofar as, given the characteristics of utility mentioned in the previous paragraph, such approximations could seem to be conceptually incoherent, or at least incomparable in any meaningful sense.

A more promising reply consists in claiming that if we accept the definition of society along the lines of that proposed by Mises, who describes it as "the total complex of the mutual relations created by (…) concerted actions" aimed at "cooperation and coadjuvancy with others for the attainment of definite singular ends", whose results are "division of labor and combination of labor" (Mises 1996, p. 143), we can define the relevant criterion of social welfare as the extent to which individuals within a given group are enabled to "evaluate and allocate the means at their disposal when pursuing their goals through social action, i.e., action that makes use of voluntary exchange and the social division of labor to realize its aims" (Salerno 1993, p. 130). This, in turn, allows us to "discount any gains, in terms of direct utility or exchangeable goods, that accrue to the [aggressive] interveners and their beneficiaries, while remaining safely within the bounds of strict *Wertfreiheit*" (ibid., p. 131), since the actions of the said interveners

> necessarily distort or annul [the free market's] intricate calculational nexus coordinating consumer preferences and entrepreneurial choices, *ipso facto* generat[ing] a less efficient allocation of resources, i.e., one that does not completely and exclusively reflect the anticipated preferences of the participants in the social division of labor. (ibid.)

In sum, on a definitional level we may effectively exclude aggressors from society and thus rank regimes vis-à-vis their conduciveness to the promotion of social utility based on the degree to which they are free of institutional coercion and unobstructive with respect to bringing about the conditions under which it is possible to fend off non-institutional coercion successfully.

Let us now move to the issue of whether feeling regret about acting on a given desire proves that in hindsight we identify it as irrational (which might be problematic for the welfare theory under consideration if we take irrationality of any given action to be an indication of its Pareto-inferiority). One could think that this is evidenced by the desirer saying something like "this is not what I really wanted" as he reflects on his past choice and subsequently undertakes some actions to rectify this state of affairs. Here, I believe, we need to insert a crucial qualification. As I already emphasized repeatedly, I am perfectly sympathetic to the claim that voluntary actions reveal the agent's preferences, but:

> All we can say is that an action, at a specific point of time, reveals part of a man's preference scale *at that time*. There is no warrant for assuming that it remains constant from one point of time to another. (Rothbard 1956, p. 6)

Thus, if the desirer says at *t1* "this is not what I really wanted" with reference to his choice made at *t0*, this statement is not strictly speaking correct. "This is not what I want right now, but this is what I wanted back then" would be a much more accurate description of his intertemporal preferential makeup. And if this description is to be taken as indicative of the agent's irrationality, we have to make the assumption that rationality requires constancy of preferences over time. I see no reason to make such an assumption. As purposive and reflective beings, we can and often do change our goals and aims, both in response to continually accumulated new empirical data and their logical scrutiny, as well as in response to purely internal changes of heart, taste and evaluation. What matters for rationality is not constancy, but consistency, and the above mistaken identification of irrationality results from confusing the two:

> (…) *Constancy* and *consistency* are two entirely different things. Consistency means that a person maintains a transitive order of rank on his preference scale (if A is preferred to B and B is preferred to C, then A is preferred to C). (…) *Constancy* [means] that an individual maintains the same value scale over time. While the former might be called irrational, there is certainly nothing irrational about someone's value scales changing through time. (Rothbard 1956, p. 6) [4]

In sum, since rationality does not require constancy of preferences over time, feeling regret about one's past actions cannot be construed as an indication of their irrationality – and, by extension, of their Pareto-

4 On the distinction between constancy and consistency of preferences, see also Mises (1996), p. 103.

inferiority.

Finally, let us say a few words about the apparent asymmetry in the way in which the demonstrated-preference-based welfare theory treats the concepts of positive and negative externalities. As I repeatedly indicated earlier, according to the framework that underlies the theory in question, a positive externality is an economically unoperationalizable term, because, by definition, there can be no demonstrated market demand for the goods alleged to exhibit such externalities. However, at the same time the framework under discussion admits that there exists a perfectly meaningful economic definition of negative externalities - i.e., the effects of transactions between A and B which physically interfere with the property rights of C (Rothbard 1982; Cordato 1992). How can this conceptual asymmetry be explained?

To do so, it has to be noted that non-action with respect to someone else's assets that are alleged to create positive spillover effects can be given a number of equally plausible though mutually exclusive psychological interpretations (free-rider's enjoyment, indifference, dislike, etc.), but only one praxeological interpretation (a preference for non-payment over payment for the ostensible good under consideration). Likewise, non-action with respect to one's own assets can be psychologically interpreted in many different ways, but only one explanation makes praxeological sense in this context – namely, a preference for keeping the assets in question over trading them for something else, giving them away or disposing of them in any other manner.

Hence, it becomes visible that an action (payment or other form of voluntary acceptance) is required on the part of the putative beneficiary of a positive externality to prove that he is in fact one, but no action is required on the part of someone whose property is uninvitedly interfered with to classify any such interference as a negative externality. This, as I see it, is because the benefits derived from keeping one's property assets can be traced back to the preceding action of acquiring them (via the regression theorem of social interactions) (Herbener 2008, pp. 63-4), but the benefits of being affected by positive externalities can be traced back to none of the preceding actions of the ostensible beneficiaries.

The above point can be further illustrated by reflecting on an argument often encountered in debates on full-reserve banking versus fractional-reserve ranking. Many advocates of fractional-reserve banking argue that cash balances held in demand deposit accounts are idle and since depositors are not actively using them, banks are free to exercise control over them and lend them out for investment purposes. The advocates of full-reserve banking, on the other hand, take the view that these supposedly idle reserves indicate a conscious decision on the part of depositors, and that a bank that lends them out is making an erroneous assumption that the depositors' putative idleness stems from the fact that they do not currently need their deposits. However, holding money in a cash balance does, in fact, serve a concrete and important function, which is hedging against uncertainty through the accumulation of liquid assets (Hutt 1956; Hülsmann 1996, p. 12; Rothbard 2004, p. 265). This is yet another illustration of the fact that non-action with respect to one's assets has to be interpreted in light of one's previous decisions and that it cannot be taken as an indication that, at least for the time being, the assets in question dropped out of one's preference scale.

5. Conclusion

Having defused a number of objections and dealt with a number of conceptual tangles related to the subjectivist, demonstrated-preference-based welfare theory adopted and defended in this paper, as well as having explored in more detail some of the more general considerations dealing with entrepreneurial methods of solving the free rider problem, I have to conclude that the neoclassical theory of common goods suffers from a number of significant logical shortcomings. Furthermore, I contend that even if, for the sake of the argument, we were to put these aside, the effective provision of the ostensible common goods would not require the existence of a territorial monopoly of force, and could be satisfactorily delivered in a purely market-based system.

References

Arnold, R. A. (2004), *Economics* (Mason, OH: South-Western).

Ayers, R. M. and Collinge, R. A. (2004), *Economics: Explore and Apply* (Upper Saddle River, NJ: Prentice Hall).

Berglas, E. (1976), 'On the Theory of Clubs', *American Economic Review*, 66, 116-21.

Block, W. (1983), 'Public Goods and Externalities: The Case of Roads', *Journal of Libertarian Studies*, 7 (1), 1-34.

Böhm-Bawerk, E. (1890), *Capital and Interest* (London: Macmillan).

Buchanan, J. M. (1965), 'An Economic Theory of Clubs', *Economica*, 32, 1-14.

Caplan, B. (1999), 'The Austrian Search for Realistic Foundations', *Southern Economic Journal*, 65 (4), 823–38.

Cordato, R. E. (1992), *Welfare Economics and Externalities in an Open Ended Universe* (Boston: Kluwer Academic Publishers).

Fielding, K. T. (1979), 'Nonexcludability and Government Financing of Public Goods', *Journal of Libertarian Studies*, 3 (3), 293-8.

Friedman, D. (1989) [1973], *The Machinery of Freedom: Guide to a Radical Capitalism* (2nd ed., La Salle, Ill.: Open Court).

Hasnas, J. (2008), 'The Obviousness of Anarchy', in R. T. Long and T. R. Machan (eds.), *Anarchism/Minarchism: Is a Government Part of a Free Country?* (Burlington, VT: Ashgate), 111-32.

Herbener, J. (1997), 'The Pareto Rule and Welfare Economics', *Review of Austrian Economics*, 10 (1), 70–106.

Herbener, J. (2008), 'In Defense of Rothbardian Welfare Economics', *New Perspectives on Political Economy*, 4 (1), 53-78.

Hoppe, H-H. (1989), *A Theory of Socialism and Capitalism* (Kluwer Academic Publishers).

Hoppe, H-H. (1999), 'The Private Production of Defense', *Journal of Libertarian Studies*, 14 (1), 27–52.

Hoppe, H-H. (2007), 'The limits of numerical probability: Frank H. Knight and Ludwig von Mises and the frequency interpretation', *The Quarterly Journal of Austrian Economics,* 10 (1), 3–21.

Hülsmann, J. G. (1996), 'Free Banking and the Free Bankers', *Review of Austrian Economics*, 9 (1), 3–53.

Hummel, J. R. (1990), 'National Goods Versus Public Goods: Defense, Disarmament, and Free Riders', *Review of Austrian Economics*, 4, 88-122.

Kim, O. and Walker, M. (1984), 'The Free Rider Problem: Experimental Evidence', *Public Choice*, 43, 3-24.

Kirzner, I. M. (1988), 'The Economic Calculation Debate: Lessons for Austrians', *The Review of Austrian Economics*, 2, 1-18.

Kvasnicka, M. (2008), 'Rothbard's Welfare Theory: A Critique', *New Perspectives on Political Economy*, 4 (1), 41-52.

Malkin, J. and Wildavsky, A. (1991), 'Why the traditional distinction between public and private goods should be abandoned', *Journal of Theoretical Politics*, 4 (3), 255–78.

McNutt, P. (1999), 'Public Goods and Club Goods', in B. Bouckaert and G. De Geest (eds.), *Encyclopedia of Law and Economics (*Edward Elgar Publishers, UK and University of Ghent, Belgium).

Mises, L. (1920) [1990], *Economic Calculation in the Socialist Commonwealth* (Auburn, Ala.: Ludwig von Mises Institute).

Mises, L. (1980) [1912], *Theory of Money and Credit* (Indianapolis: Liberty Classics).

Mises, L. (1996) [1949], *Human Action.* 4th edition, revised. (San Francisco: Fox and Wilkes).

Mises, R. (1957), *Probability, Statistics and Truth* (New York: Dover Publications).

Murphy, R. (2002), *Chaos Theory* (New York: RJ Communications LLC).

Musgrave, P.B. and Musgrave, R.A. (1980), *Public Finance in Theory and Practice* (London: McGraw Hill).

Netzer, D. (1952), 'Toll Roads and the Crisis in Highway Finance', *National Tax Journal*, 5 (2), 107-19.

Nozick, R. (1974), *Anarchy, State, and Utopia* (Basic Books: New York).

Olson, M. (1971) [1965], *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, Mass.: Harvard University Press).

Ostrom, E. (1990), *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge: Cambridge University Press).

Rothbard, M. (1956), 'Toward a Reconstruction of Utility and Welfare Economics', in M. Sennholz (ed.), *On Freedom and Free Enterprise: Essays in Honor of Ludwig von Mises* (Princeton, NJ: Van Nostrand), 224-62.

Rothbard, M. (1960), 'The Mantle of Science', in. H. Schoeck and J. W. Wiggins (eds.), *Scientism and Values* (Princeton, N.J.: D. Van Nostrand), 159-80.

Rothbard, M. (1973), *For a New Liberty: The Libertarian Manifesto* (New York: The Macmillan Company).

Rothbard, M. (1982), 'Law, Property Rights, and Air Pollution', *Cato Journal*, 2 (1), 55-100.

Rothbard, M. (1998) [1982], *The Ethics of Liberty* (New York, N.Y.: New York University Press).

Rothbard, M. (2004), *Man, Economy, and State: A Treatise on Economic Principles with Power and Market*, Scholar's

Edition (Auburn, AL: Ludwig von Mises Institute).

Salerno, J. T. (1993), 'Mises and Hayek Dehomogenized', *Review of Austrian Economics,* 6 (2), 113–46.

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

Samuelson, P. A. (1955), 'Diagrammatic Exposition of a Theory of Public Expenditure', *Review of Economics and Statistics*, 37, 350-6.

Smerk, G. M. (1965), *Urban Transportation: The Federal Role* (Bloomington, Ind.: Indiana University Press).

Stringham, E. P. (2007, ed.), *Anarchy and the Law: The Political Economy of Choice* (Somerset, NJ: Transaction Publishers).

Tannehill, M. and Tannehill, L. (1970), *The Market For Liberty* (Lansing, MI: self-published).Willis, J. (2002), *Explorations in Microeconomics* (Redding, CA: North West Publishing).

Reviews of books about Ron Paul

Walter E. Block[1]

Ron Paul, in addition to being a doctor, a politician, a leader of the libertarian movement, is also a heavily published author. He has written the following books: Paul (1981, 1983A, 1983B, 1984, 1987, 1990, 1991, 2000, 2002, 2007, 2008A, 2008B, 2009, 2010, 2011, 2012, 2013; Paul and Lehrman, 1982, 2012; Rangel and Paul, 2006). And when I say "written" I mean "written." That is, he wrote them himself, in sharp contrast to the volumes authored by many famous people, which were really penned, so to speak, by professional writers and editors.[2]

However the present review will leave all of those volumes untouched. Instead, it is dedicated to a very different oeuvre: books *about* Ron Paul, written by other authors. To wit, I will discuss the following books[3] that have been written not by, but about, Ron Paul: 1. Alford, 2013; 2. Block, 2012A; 3. Doherty, 2012; 4. Haddad and Marsh, 2008; 5. Hammond, 2012; 6. Richardson, 2008; 7. Rink, 2011; 8. Stevo, 2012.[4]

1. Alford, 2013

I highly recommend this book, as I do all others on this list. However, to some extent, this really is not a book at all. If I had to characterize it, it would be almost as a picture post card; the photographs are that good. Not one telling friends and relatives about a wonderful vacation, but relating to all and sundry what a wonderful person Ron Paul is, and how important and wonderful was his candidacy of 2012. Alternatively, this book could

1 Loyola College New Orleans. Email: wblock@loyno.edu.

2 In the Jewish tradition, if you want to say that the chicken soup is a bit thin you say, "They waved a chicken over some boiling water." Adopting this metaphor, we can say of the volumes "written" by many famous people, but certainly not Ron Paul, that they waved the author over that book.

3 If anyone knows of any other contributions in this regard, do let me know. I want my reviews of the books about Ron Paul to be as inclusive as possible.

4 Note, too, that one of my own books, Block (2012A), is on this list. Thus, my plan is a somewhat curious one, in that it calls for an author to review his own book. But, as I say, I want this review of all books about Ron Paul so as to be as comprehensive as possible, and I rank that goal higher than adhering to the usual practice of authors not reviewing their own works. However, this "review" of mine of my own book shall be exceedingly modest, merely giving "name, rank and serial number" kinds of information about it. I shall do something quite similar for Doherty (2012), since I have already written a full bore review of that book (Block, 2012B)