

## INTERVENTIONISM: AN ECONOMIC ANALYSIS OF PRICELESS RESOURCE ALLOCATION

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**Abstract.** *The present paper is going to build upon the Misesian theory of interventionism by presenting it in the light of property economics. We will argue that all forms of government interfere with the workings of the market can be counterfactually analysed by contrasting them with the voluntary order of laissez-faire capitalism. Interventionism is presented as a partial order, situated on the continuum between laissez-faire capitalism and socialism. The article argues that the limits of interventionism can be understood as a direct consequence of its functioning under the aegis of fiat property. Because the state can unilaterally decide the extent to which an individual is entitled to his private property (involuntary co-ownership), interventionism replaces the rational entrepreneurial order of the free market, which is constrained by the price structure and is directed by economic calculation, with the arbitrary value judgments of a single entity. This more general re-statement of the Misesian theory of interventionism from the point of view of property economics has the benefit of covering all possible policy measures while deducing the implications from an a priori perspective. From a methodological standpoint, this approach provides a more realist account of the implications of government involvement in the workings of the market as it does not require any unrealistic assumptions like: perfect information, equilibrium and dead weight loss comparison, or postulate a certain type of behaviour - benevolence, narrow self-interest or ideological error.*

**Key words:** Property economics; interventionism; fiat property.

**JEL Classification Codes:** B53, P16, P48.

### 1. INTRODUCTION

Faced with the question of what kind of economic system most of humanity is currently living under, an individual is prone to give a simple answer: capitalism. By this he does not mean a fully free market, but, more likely, a situation in which most economic decisions are taken by the interplay of supply and demand, while the state keeps a watchful eye to correct any insufficiencies.

Most economists basically accept this general definition. A fully free market order is seen as inadequate, as market failure situations have to be combated by government intervention. Situations like externalities, welfare economics, regulation and cyclical movements are textbook examples of situations in which government intervention is required.

This orthodoxy has found itself challenged by the Public Choice school, which emphasized political failure, or by the Law and Economics paradigm, which claims that a more efficient way of solving the problem of social costs is for the government to allocate property rights and leave the market (in the absence of transaction costs) to efficiently reach a solution.

Although these approaches do raise some questions concerning the motives and the best tools to tackle market failure they do not attempt to deny the idea that the market, if left to its

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own, will fail to reach an optimum. But what should this optimum be? Furthermore, does the economist, qua scientist, possess an objective benchmark that he can use in analysing interventionist measures that aim at attaining this optimum?

There are only two possible means through which an individual can improve upon his material wellbeing: the economic means and the political means (Oppenheimer 1992). In a world of scarcity, in which one has to address infinite needs with limited resources (Robbins 1932, Salerno 2009), an individual can either engage in voluntary interaction with his fellow men or he can use violence, or threat of violence, in order to expropriate the resources of others. This is the *tertium non datur* confronting all human interaction in relation to addressing scarcity.

Starting from this exhaustive distinction the present paper will attempt to sketch a methodological approach that will allow the study of government intervention without any implicit normative assumptions, viz. what the sought after optimum should be, and what kind of behaviour underlies political decisions. This methodological insight builds upon a venerable Franco-Austrian tradition, which was recently systematized by Hülsmann (2004) as a counterfactual approach.

Subsequently, based on Hülsmann's property economics approach, the paper will attempt to contrast the voluntary market order with the top-down superimposed order of interventionism, which operates under the aegis of fiat property.

## 2. THE SCOPE OF PROPERTY ECONOMICS

An individual can either appropriate a given good after its previous owner gave his consent, or he can appropriate it against that person's will. Both approaches have specific consequences, which can be deduced by relating consensual to non-consensual appropriation, thus obtaining a special class of a priori laws. This approach has a venerable tradition in economic science that traces its roots back to Condillac – Bastiat – Courcelle-Seneuil – Mises – Hoppe and it forms the subject of what Hülsmann (2004) calls "property economics".

*"Property economics is not a tool for the normative definition of property rights, and it does not rely on equilibrium modelling to analyse the impact of the positive law on the workings of a market economy. Rather, it is a comparative analysis of two mutually excluding types of appropriation. It compares the effects that when appropriation takes place with the consent of the present owner to the effects that result if appropriation takes place without the present owner's consent. These relative effects are constant in time and space. They are thus a special class of economic laws, namely, counterfactual laws of appropriation."* (Hülsmann 2004, p. 41)

Because only something that has economic value, i.e. something that was previously appropriated, can be taken without consent by violent means, the analysis of coercion can logically and temporarily come only after the workings of the voluntary order, i.e. laissez-faire capitalism, have been analysed (Apavaloaei 2014). Indeed, the whole Franco-Austrian tradition mentioned above deduces the effects of government action only after, and by contrasting it with, the results produced by a voluntary order<sup>2</sup>. By using the insights provided by human action<sup>3</sup>

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<sup>2</sup> Take for example Bastiat's analysis from his 1850 pamphlet "The Law":

*"It is not because men have made laws, that personality, liberty, and property exist. On the contrary, it is because personality, liberty, and property exist beforehand, that men make laws."* (Bastiat 2007, p. 50)

*"I ought to explain myself upon the word plunder. I do not take it, as it often is taken, in a vague, undefined, relative, or metaphorical sense. I use it in its scientific acceptation, and as expressing the opposite idea to property. When a portion of wealth passes out of the hands of him who has acquired it, without his consent, and without compensation, to him who has not created it, whether by force or by artifice, I say that property is violated, that plunder is perpetrated. I say that this is exactly what the law ought to repress always and everywhere. If the law itself performs the action it ought to repress, I say that plunder is still perpetrated, and even, in a social point of*

(Mises 2008) and those of argumentation ethics (Hoppe 2006) one can define and operate with the concepts of self ownership, appropriation and exchange of resources without introducing any normative claim in the analysis. Furthermore, because a voluntary market order can only be characterized by:

- Appropriation, which refers only to previously unowned resources and thus it cannot impact the (physical) property of others (Herbener 2009);
- Voluntary exchange of property rights, which is ex ante mutually beneficial, as proved by the theory of demonstrated action (Rothbard 2011).

It means that laissez-faire capitalism is a Pareto optimal order. Based on this a priori deduced conclusion, one can select laissez-faire capitalism as benchmark from which to counterfactually deduce the effects of any act of aggression.

### 3. THE BENEFITS OF A COUNTERFACTUAL APPROACH

At this point, one should mention that this type of counterfactual approach allows for a pure economic analysis of the effect of the political means. The economist does not have to adopt any sort of value-laden position or make unrealistic assumptions in matters concerning the subject of his analysis. Property economics approaches the subject matter related to the economic and the political means from an “either-or” position that covers all real world choices independent of motive. This approach proves instrumental especially when it comes to analyzing the economic consequences of government intervention, but it can also be extended to the analysis of the effects of the roving or stationary banditry<sup>4</sup>. That is to say that this type of analysis is distinct from political philosophy (what a just political order should be), political economy (what policies would maximize economic welfare?) and from political science (what are the implications of certain political institutions).

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*view, under aggravated circumstances. In this case, however, he who profits from the plunder is not responsible for it; it is the law, the lawgiver, society itself, and this is where the political danger lies.”* (Bastiat 2007, p. 62-63)

Bastiat’s counterfactual approach can be most clearly grasped in his “That Which Is Seen and That Which Is Unseen”, also published in 1850, the last year of his life. Bastiat reaches conclusions such as:

*“Society loses the value of things which are uselessly destroyed; and we must assent to a maxim which will make the hair of protectionists stand on end – To break, to spoil, to waste, is not to encourage national labor; or, more briefly, “destruction is not profit.”* (Bastiat 2007, p. 4)

<sup>3</sup> The fact that human beings act can be considered an axiomatic statement. See (Rothbard 2011), esp. “Praxeology: The Methodology of Austrian Economics” and “In Defense of ‘Extreme Apriorism’” for an Aristotelian approach that argues that the fundamental axiom and the subsequent axioms that can be deduced from it are derived from experience and are therefore in the broadest sense empirical. Also, see (Hoppe 1995) for a Kantian argument of the synthetic a priori character of the axiom of action

<sup>4</sup> In his analysis, Olson (1982, 1993) distinguishes between these two types of banditry. While the first steals all he can because he is confronted with a tragedy of the commons scenario, the latter possesses a monopoly over a given territory. In this sense, the stationary bandit is inclined to defend his territory against other bandits and engage in expropriation with moderation by implementing a system of taxation. Olson analysis can be complemented with the insights provided by property economics. For example, it is in the interest of the stationary bandit to act in a more prudent fashion, but the results of his institutionalized coercion are different from those of a mere thief. Because the subjects anticipate that their property is going to be constantly siphoned off, their incentives to work and accumulate capital are going to be lower than those that would emerge in a laissez-faire capitalism scenario that is plagued by sporadic acts of stealing that can be combated (Hoppe 2001, Hülsmann 2006). While in a voluntary order you can construct better locks, buy weapons or contract defense services, in a state dominated society you cannot oppose the tax collector. Once the state enters the picture, coercion becomes institutionalized and a two-class system emerges: net taxpayers versus net tax earners (Hoppe 1990, Raico 1993). Only counterfactually can we deduce the effects of the political means on laissez-faire capitalism, while taking into account whether they are institutionalized or not.

At the same time, the property economics approach is free from any precise assumption (Long 2006) regarding the homo economicus behavior of policy makers or the perfect knowledge that they possess (Buchanan and Tullock 1962, Stigler 1971, Stigler 1972, Peltzman 1976). The same can be said about, equilibrium analysis and deadweight loss (Tullock 1959, Krueger 1974). All these assumptions, besides the fact that they are unrealistic and in opposition with the unquantifiable nature of the theory of subjective value, are not requisite for determining the economic consequences of positive law.

What this type of economic analysis brings to the table is a qualitative, counterfactual analysis that can deduce the effects of violent ingression upon the workings of laissez faire capitalism. Reverting to Hülsmann (2004) for further clarification of this idea:

*“Let us emphasize that one can describe the laws of appropriation without making any stipulation about whether the economy is in equilibrium or disequilibrium. Consider the case of income taxation. It incites the taxpayer to produce a smaller marketable quantity than they otherwise would have produced. Taxation entails this effect independent of the question whether economy is in general equilibrium. How much the taxpayer will reduce their production for the market cannot be said in the light of this counterfactual law. Or consider the case of monopoly privilege. If this condition is given, then it follows that the revenue of the monopolist is greater than otherwise would have been.”* (Hülsmann 2004, p. 59)

Two further aspects have to be discussed before concluding this section. First, the counterfactual method of property economics should be used with care when historical (empirical) research is conducted. Counterfactual analysis means that measure A leads to such and such consequences that would not have emerged in the absence of that specific measure. That is to say, if a government raises taxes, counterfactually we can deduce that less is going to be produced and the consumer is going to be left worst off. If empirical research based on time series reveals that under these circumstances an economic aggregate such as GDP has increased, this does not mean that taxation has a neutral or even positive effect. Because of property economics, we know that such an explanation is a priori invalid. The reason for the hike in GDP should be explained by other means, e.g. inflation that is only partially captured by CPI; technological innovation that lowered the costs of production despite the tax hike, or the indicator used is itself flawed (a raise in taxes will lead to a hike in consumption at the expense of capital accumulation, or even capital consumption; because consumption represents approx. 70% of GDP the two time series might be in the short run positively correlated).

Second, the counterfactual approach presented above has one major advantage over any analysis that has to assume a certain type of behavior on the part of the policy makers. From this point of view, the Austrian approach is more “empirical” as it can explain all manifestations of reality. Property economics can deduce the effects of the political means without postulating a certain type of behavior: benevolence, narrow self-interest or human error. For example, let us take into consideration a decree that sets the minimum wage above the prevailing equilibrium price. The economic corollary of such measure is a rise in unemployment, as the markets cannot clear at this artificially set minimum price. Counterfactually we can say that unemployment will be higher due to an arbitrary value judgment imposed by political means. Economic science has no need to analyze the motives behind such a decision. It is of no importance whether the politician adopting this decision was guided by benevolence, by group interest (like in the case of Apartheid), or was simply erring. A political or historical analysis could bring more light in matters concerning the motivation behind such a measure, but before such an interdisciplinary approach can be conducted the researcher must understand the economic laws that underlie the interplay between a voluntary and coercive order.

#### 4. INTERVENTIONISM ON A SCALE FROM LAISSEZ-FAIRE CAPITALISM TO SOCIALISM

Up to this point, we have argued that property economics is instrumental in analysing specific types of interventionism, but the framework can also be employed when analysing different economic systems. Broadly speaking, there are three categories in which various combinations of the two means of addressing scarcity can be grouped in: laissez-faire capitalism, interventionism and socialism.

Starting from Mises's (2008) definitions of capitalism and socialism as the system in which all the means of production are privately owned, as opposed to the system in which all the means of production are owned by the state, we can attempt to restate these definitions in terms of property economics. Capitalism, or laissez-faire capitalism as we called it above, can also be understood as a voluntary order based of property rights, while socialism represents a system in which coercion has eliminated property rights by expropriating the initial owners of the means of production.

Interventionism, in the Misesian understanding of the term, is defined as a "limited order" (Lavoie 1982), in the sense that it does not seek to take expropriation to its limit, and obtain total control over the means of production.

*"The authority interferes with the operation of the market economy, but does not want to eliminate the market altogether. It wants production and consumption to develop along lines different from those prescribed by an unhampered market, and it wants to achieve its aim by injecting into the working of the market orders, commands, and prohibitions for whose enforcement the police power and its apparatus of violent compulsion and coercion stand ready. But these are isolated acts of intervention."* (Mises 2008, p.714)

While the two extremes are more facile to grasp and have been discussed mainly during the Socialist Calculation Debate<sup>5</sup>, interventionism is more difficult to delimit due to its encompassing character. For example, the Soviet Union's economy cannot be considered a fully socialist enterprise, as long as the Soviet planning board had access to world prices and black markets were allowed to operate. In other words, between a worldwide socialist regime that would have absolutely no vantage point in allocating the means of production and a socialist country that operates in a capitalist sea, counterfactually we can deduce that the latter is in a better position to allocate resources in a rational way<sup>6</sup>, although it cannot be specifically said how much better it can fare.

All the economic systems we have historically encountered until this moment, with the exception of those that managed to remain totally autarkic, are more likely examples of interventionism than of pure socialism or capitalism. Their functioning and limitations can be understood only by counterfactually deducing the implication of different types and degrees of coercion that are applied to a continuum that stretches from laissez-faire capitalism to worldwide socialism.

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<sup>5</sup> For an overview of the debate see: (Salerno 1990, 1993), Rothbard (1991), (Mises 2008)

<sup>6</sup> It must be clearly understood what is meant by rational allocation of the means of production:

*"[A]s long as resources are scarce, they need to be economized if they are to serve human needs effectively. Under capitalism, market prices for the means of production enable economic calculation, which ensures a tendency toward the rational allocation of capital goods. Without capital-goods prices, however, no such allocation is possible. In abolishing market prices for capital goods, socialism does away with the very mechanism that enables societal economic behavior. Thus, a socialist economy is impossible. This is what Mises meant in saying that the relevant choice in deciding among economic systems is a matter of capitalism versus socialism: socialism's inability to allocate resources rationally precludes the possibility of a socialist economy to by definition. QED."* (Boettke and Leeson 2005, p. 157)

In this vein, Hoppe (2010) states in his treatise on political theory:

*“[S]ocialism, by no means an invention of nineteenth century Marxism but much older, must be conceptualized as an institutionalized interference with or aggression against private property and private property claims. Capitalism, on the other hand, is a social system based on explicit recognition of private property and of nonaggressive, contractual exchanges between private property owners. Implied in this remark [...] is the belief that there must exist varying types and degrees of socialism, and capitalism, i.e. varying degrees to which private property rights are respected or ignored. Societies are not simply capitalist or socialist. Indeed all existing societies are socialist to some extent.”* (Hoppe 2010, p. 10)

## **5. THE NATURE OF INTERVENTIONISM: DOING BUSINESS UNDER THE AEGIS OF FIAT PROPERTY**

Property economics provides us with an integrated framework capable of exposing the limitations and accumulating discrepancies that mount as the political means assume an ever-increasing role in allocating resources. With this framework in mind, what can we say about the nature of interventionism, qua economic system?

First and foremost, we must reconcile the idea of limited order stated above with the framework of property economics. In order to better present the nature of this system, let us give a mundane example. Under interventionism the state can unilaterally decide what minimum conditions an individual has to respect in order to open a barbershop. The barber has to be licensed, his facility has to have a minimum space, running water, sterilizing equipment, and a contract with a special services provider that has to pick up the hair that was trimmed. Also, he must pay a minimum wage to any employee, while making sure that he has a certain type of accounting system in place and a cash register so he pays all the taxes the state considers necessary to impose. At the same time, the barber cannot discriminate against his clientele and he must do as the local health inspectors order him to. In such a scenario, the idea of private property is something in name only.

Under such stringencies all private property becomes fiat property (Hoppe 2011), increasingly so as interventionist policies become more embracing. In such an order, entrepreneurial efforts are increasingly deviated from catering to the most stringent needs of the consumer to obeying the orders of individuals that are unwarrantedly pretending the status of co-ownership.

Returning to the example above, the barber is coerced into conducting business in a manner different from the one envisioned by him, i.e. the one he anticipates would best serve the needs of the consumer. In a laissez-faire capitalist world, the barber:

- Voluntary engages in market transactions with his clients, this in turn leads to a Pareto optimal order.
- He tries to offer the conditions and services that he anticipates will bring him the greatest amount of profit, i.e. satisfies the most urgent need of the consumer.
- Because the barber operates in a laissez-faire capitalist world his economic power is limited to the resources he can muster – what he previously appropriated, saved, or what amount he managed to persuade his creditors to lend him ((Mahoney 2010) calls this the catallactic scarcity).
- With his limited resources, the barber participates in the intellectual division of labour (or as Machaj (2007) aptly called it: the entrepreneurial division of labour), and bids for limited resources that are sought after by other entrepreneurs. This makes prices the quintessential social phenomenon.

- All prices are interconnected and incorporate both the bids of other entrepreneurs that operate in the economy and those put forward by the barber (although his individual impact is infinitesimal). In this sense, the emerging price structure will ensure that the service supplied by the barber is going to be optimized. He does not necessarily supply the most elegant technical solution, but the one that is coordinated<sup>7</sup> with all the needs and available resources in a given moment in time so any other more stringent need does not go unaddressed.

Synthetically stated, laissez-faire capitalism is a voluntary, entrepreneurial order that insures that all resources are coordinated toward consumer satisfaction. The system, due to its atomized property structure insures that entrepreneurs are constantly confronting their projects in bids for resources. The resulting price structure is the precondition for economic calculation that insures the rational allocation of resources.

Counterfactually, what can be stated about the scenario in which our barber conducts his business under fiat property? Our analysis leads to the following conclusions regarding the nature of interventionism:

- Because it is based on coercion, the order is not Pareto optimal, as it must first take/impede a voluntary transaction and only afterwards can it redirect resources. Any state intervention can only add costs that hamper the barber in providing a mutually beneficial service.
- Interventionism is based on injecting coercive orders in the workings of the economy, thus it invalidates economic calculation in favour of a top-down approach. The consumer is no longer the one whose needs have to be addressed, or the one to determine the viability of a business.
- Because the state can unilaterally decide what business is viable and how it should operate it ignores the rationality of the price system (a social phenomenon) in favour of the value judgment of ultimately one individual. We either have competition through prices a planned order based on allocation (Eucken 1948a, Eucken 1948b).
- Because other individuals' opportunity cost and inter-individual utility comparison are impossible to quantify, all state actions are ultimately irresponsible (de Soto 2009). There is no method of demonstrating that any state imposed action has a positive net result.
- The entrepreneurial market order, characterized by a limited economic power is replaced by political whim (limited by ideological limits and implosion of the economic system). While the barber can alter the allocation of resources only to the extent that his previous appropriated resources or savings allow him to outbid other entrepreneurship, the state can alter the allocation of resources by sheer command.
- The essence of interventionism is the institutionalized, uninvited co-ownership of the state over someone's property. Because the rightful owner has to share both ownership and control with the state, moral hazard becomes manifest (Hülsmann 2006). Thus both the government and the owner want to expropriate the resources at the other's expense. This will encourage consumption over production and a flight to relatively less regulated industries, while the government will try to close all the loopholes.

All the implications of interventionism can be deduced from the fact that the system operates under fiat property. While the analysis can be taken a step further by looking at specific interventionist measures, the nature of the analysis remains essentially the same: Political means arbitrary redirect production away from consumer wants by infringing upon private property

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<sup>7</sup> By coordination we include the coordination of leisure preferences, risk preference, time preference and liquidity preference. See (Salerno 2010).

rights. The nature of this process should be understood in terms of economic liberty, which should be distinguished from political liberty.

## 6. CONCLUSION

This paper attempted to demonstrate that the analysis of government intervention can be realized by starting from an objective and realist framework. In this sense, the first part of the paper described the counterfactual application of property economics, while underlining some of its benefits in comparison to other proposed approaches.

The second part of the paper employed the above-mentioned framework to the analysis of interventionism, which we can now define more precisely, counterfactually, in terms of fiat property.

Because a purely economic analysis can answer questions pertaining only to the means employed, and in this sense our counterfactual analysis has found interventionism to be wanting, we are now in a better position to call for an interdisciplinary analysis of interventionism. Further research in the direction of political science should attempt to answer why political means continue to be used in directing resources despite the fact that they hinder economic prosperity.

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