Austrian Theory and The Economics of Charitable Action: The Special Application of Praxeology and Understanding

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Abstract: The study of charitable giving is the stepchild of economics. One looks in vain in most textbooks in the dismal science for even one entry. Yes, yes, it accounts for a smaller share of the GDP than wages, interest payments, profits, and other desiderata. However, the amounts donated are not insignificant. But, even if voluntary donations were near zero, this phenomenon should still garner more interest than it has. This paper is an attempt in small part to rectify this misallocation of scarce intellectual resources. The science of economics—as expressed by the subjectivist method of the Austrian school—explains the logic of charitable action. Praxeology tells us that people act charitable with the hope that their action will move them from a less preferred state of being to one that is more preferred. The Austrian theory of charitable action says that charitable action is—as is any purposeful action—decidedly self-interested. While altruism is an important motive for many—if not most—charitable people; it is ultimately secondary to the primary purpose of human action: self-interest. Moreover, there are many other secondary motives with no connection to altruism.

Keywords: Charity, volunteerism, altruism, praxeology, verstehen, wertfreiheit, thymology

JEL Category: Z10

Ludwig von Mises (1966), the foremost philosopher and theorist of the Austrian School of Economics, defined economic theory as "praxeology" (the study of acting man). Likewise, his most famous student, Nobel Laureate Friedrich A. Hayek (1948), called it the "pure logic of choice."

When we approach charitable action in the spirit of Mises's "praxeology" or Hayek's "pure logic of choice," it is easy to see how economics can help explain it.[1] In fact, the science of economics—as circumscribed by the Austrian School—is germane to almost every aspect of our lives. As Mises (1966, p. 3) wrote:

> …In making his choice man chooses not only between various material things and services. All human values are offered for option. All ends and all means, both material and ideal issues, the sublime and the base, the noble and ignoble, are ranged in a single row and subjected to a decision which picks one thing and sets aside another. Nothing that men aim at or want to avoid remains outside this ar-

> rangement into a unique scale of gradation and preference. The modern theory of value widens the scientific horizon and enlarges the field of economic studies. Out of the political economy of the classical school emerges the general theory of human action, praxeology.

Austrian economic theory includes human imagination and reason as well as the concepts of time and uncertainty—things fundamental to, and implied by, purposeful action. When we act with purpose we are making *choices* (according to some plan we derive from *imagination* and *reason*) about how to use our available scarce means in the *present* with the *anticipation* or hope that, at some time in the *future*, the goals-ends-wants we currently value most highly[2] (or believe we will value most highly at a future time)[3] can be met and satisfied.

Indeed, as another of Mises's eminent students, Professor Murray Rothbard (1970, p. 16) wrote:

> *...action is an attempt to exchange a less satisfactory state of affairs for a more satisfactory one.* The actor finds himself (or expects to find himself) in a nonperfect state, and, by attempting to attain his most urgently desired ends, expects to be in a better state. He cannot measure the gain in satisfaction, but he does know which of his wants are more urgent than others, and he does know when his condition has improved. Therefore, *all action involves exchange*--an exchange of one state of affairs, X, for Y, which the actor anticipates will be a more satisfactory one (and therefore higher on his value scale.) If his expectation turns out to be correct, the value of Y on his preference scale will be higher than the value of X, and he has made a *net gain* in his state of satisfaction or utility. If he has been in error, and the value of the state he has given up—X—is higher than the value of Y, he has suffered a *net loss*. The psychic gain (or *profit*) and loss cannot be measured in terms of units, but the actor always knows whether he has experienced psychic profit or loss as a result of an action-exchange.

Thus, a paramount insight of Austrian economic theory is that there is profit or loss in any exchange, i.e., in any choice or action. But it is purely a subjective phenomenon—it is known only to the actor.

Praxeology and Charitable Action:

This is no less true of our acts of charity, philanthropy and volunteerism.

When, on the road to Jericho, the Samaritan stopped and showed kindness to that hapless victim of thieves, his act revealed an important human characteristic. For most of us, a significant element in our personal scales of ordinal-subjective preferences is the well-being of other people. According to Hayek (1960, pp. 78-79):

> ...[t]here is much confusion of the ideal that a person ought to be allowed to pursue his own aims with the belief that, if left free, he will or ought to pursue solely his selfish aims. The freedom to pursue one's own aims is, however, as important for the most altruistic person, in whose scale of values the needs of other people occupy a very high place, as for any egotist. It is part of the ordinary nature of men (and perhaps still more of women) and one of the main conditions of their happiness that they make the welfare of other people their chief aim. To do so is part of the normal choice open to us […] It is one of the fundamental rights and duties of a free man to decide what and whose needs appear to him most important.

As thinking, feeling and choosing people we often find the suffering and distress of fellow human beings, or even animals, disquieting (Smith 1758; Herberner 1987). By acting in such a manner as to gratuitously improve another person's wellbeing we can alleviate personal uneasiness of our own. And so, as with

all action, when we contribute to charity, we apply scarce means to the attainment and satisfaction of a personal want.[4]

We have answered the question of why people act charitably, i.e., to alleviate some (existing or expected) felt uneasiness. But, perhaps a more interesting question is: "how does a charitable person go about satisfying his need?" More specifically, how, i.e., by what process, does a charitable person gratuitously help others.

Mises's great teacher, Eugen von Bohm-Bawerk (1959, Vol. II, p. 424n) attempted to answer this question:

> Even when people act altruistically rather than selfishly, they have good reason to take marginal utility into account. In this case it is the marginal utility which the goods to be given to other persons have for the recipients. Donations and alms are given when their significance in promoting well-being, as measured by their marginal utility, is far greater for the recipient than for the donor. The reverse is virtually never true."[5]

The Thymological Method and its Category of Verstehen:

But doesn't Bohm-Bawerk go beyond the limits of praxeology, as established by Mises, and violate the value freedom of economics (*Wertfreiheit*) as a science by imparting a specific norm or motive (altruism) to the charitable actor?

Indeed, he does! But, his conception of charitable action is intended only to shed light upon the microeconomics of *altruism*, i.e., charity motivated by the concern for another's welfare, as opposed to *charity* in all its forms. As such, his is not a "pure" theory; rather, he constructs an "Ideal Type" of charitable action—charitable action motivated by altruism.

Altruism is not the only proper or morally justifiable motive for charitable action. Indeed, there are many other motives, independent of the recipient's improved welfare, that stimulate charitable action. For example, the young man who, when out on a date with his love interest, gives money to a beggar may do so for no other reason than he thinks it will impress his sweetheart. A merchant who gives sizable discounts to the elderly or students—a charitable act by any definition—may not care one iota about the welfare of his elderly and student clientele. Rather, his motive may be to tap into a hitherto unexploited market. And, in fact, the wants and needs of the gift recipient do not even have to be cognate to, or remotely match, the assumptions of the giver and their (subjective) purpose for giving. Indeed, the recipient of charity does not need to be asking for charity, or even thinking about getting a gift, to stimulate the subjective desire of someone else to give a gift. Not many years ago one of the present authors sold a rare acoustic guitar. He and the buyer agreed on a convenient location to meet which was on a busy oceanside boardwalk. As soon as the guitar case was opened for the buyer to examine the instrument, passersby began gratuitously tossing coins into the case! Motives independent of altruism (or even contrary to altruism) are discussed in the last section of this paper.

We would also add, even if altruism (acting for the good of others) was the exclusive motive for charitable action, it would be improper to assume all altruists understand the good of others the same way. What one altruist may interpret as good for a recipient another may interpret as harmful or bad. Indeed, there is no universal good given the multiplicity of subjective values and preferences. In the view of Hayek (1979, pp. 52-53): "And it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism."

Thus, it is not a value free, or strictly praxeological, theory of charitable action; for, a value free theory of charitable action cannot comment on the actor's motives (which requires value judgements), but, only his actions as such and the logical implications thereof.[6]

This is not to say, however, that a model employing the assumption of altruistic motives is of no value. On the contrary, because *altruism* is a particularly strong motive for some charitable action, such an assumption helps us make sense of numerous real-world events.[7] As Mises (1966, p.60) writes: "No historical problem can be treated without the aid of ideal types."[8]

Moreover, doesn't Bohm-Bawerk's explanation of charitable action suffer from the same knowledge problem inherent in all interdependent utility models? That is, doesn't his explanation violate the praxeological rule which states we cannot, with certain validity, make interpersonal comparisons of subjective value?[9]

We can rescue him from this economic quicksand if we interpret Bohm-Bawerk as saying that we only make gifts of things that we can *imagine* the recipient will value more than we do. That is, we continue doing charity only so long as the marginal utility we attach to the gift (based, presumably, on the value we *imagine* the recipient attaches to the gift) is greater than the marginal utility we would attach to the gift if we used it for some purpose other than a gift.[10]

Furthermore, there are two senses in which interpersonal utility comparisons are made: the technical, and that used in ordinary language. It is only by interpreting Bohm-Bawerk in the former sense that we maintain he is guilty of transgressing the logical requirements of his profession. For there are simply no "utils" or units of happiness with which to technically—or objectively—make interpersonal utility comparisons. Utility properly understood, is always ordinal. Hence, there are clear limits on an economist's technical ability; we can prefer this to that, but we cannot say by how much, nor make technical comparisons between two people at the same time or the same person at two different times.

In sharp contrast, however, we make comparisons between two different people every day in ordinary language; and, we can defend it on this less daunting ground. For example, people commonly say of their children, things similar to, "this one lies likes pickles more than that one." If Bohm-Bawerk is interpreted in this latter manner, he needs no defense. Nor is it necessary to interpret him in the former way.

In our interpretation, Bohm-Bawerk does not claim that a gift giver knows, with logical certainty, that the recipient derives greater value from the gift than does the giver. There is no such certainty. Rather, Bohm-Bawerk is appealing to human imagination and our understanding of our unique societal nature.

Bohm-Bawerk has literally stepped over the boundary between "objective" a priori praxeologic (economic) theory and into the "subjective" realm.[11] This is what Ludwig von Mises called the thymological method of the human sciences; it uses, as its axiomatic foundation, the human category of the *Specific Historical Understanding (Verstehen)*[12] as most rigorously described by Wilhelm Dilthey (1959 [1883]).[13]

To make an "informed" choice which depends on, or impacts, the preferences and values (and thus actions) of others, we must combine our "objective" praxeologic knowledge of marginal utility with our *innate* understanding of "other" human beings. This each of us enjoys by virtue of being thinking, feeling and choosing people.[14]

Part of what defines us all as human beings is that we each possess a mutual, although often limited, knowledge of historical experience, i.e., knowledge of what it is to be human.

In this light, we interpret Bohm-Bawerk as saying only that the gift giver *estimates*, or *imagines*, according to his own subjective and ordinally ranked preferences (among them the happiness of other people), the utility or satisfaction he *thinks* the recipient will derive from the gift. If giving a gift is an element in the giver's preference scale, and if the gift giver can imagine —i.e., subjectively believe—that the recipient's increased satisfaction from receiving the gift is greater than his own satisfaction will be if he uses it to achieve some other want on his own preference scale, then he will give the gift.[15]

In essence, Bohm-Bawerk's explanation of charitable action is really nothing more than a formalizing of the often-heard common language phrases "oh, he needs it more than I do" or "I think she will enjoy it more than I will."

We arrive at these conclusions by conceptually placing ourselves in the shoes of the other person. We ask ourselves, if I were he—i.e., in his situation—would I place a higher value on the gift relative to the value I myself now place on it? As Nozick (1981, p. 673) writes:

> Inference about another on the basis of verstehen depends upon putting yourself imaginatively in his place and seeing him as like you. It is form of reasoning by analogy, and such considerations always have been given some role in inductive logic and theories of evidential support. Verstehen is a special form of inference by analogy, in that I am the thing to which he is analogous. It is inferred that he is behaving as I would in that situation, a situation that is specified partly subjectively—from a point of view...I do not need prior specification of my own actions in all possible situations, since I have empathic insight into how myself would act. By imaginatively placing myself in that situation, I can reliably know how I will act.

According to Mises, in pursuing the Human Sciences, (history, sociology, etc.) verstehen is what we must refer to when we reach the limits of "objective" knowledge derived from the a priori sciences of mathematics, logic, praxeology and experimentally verifiable knowledge derived from the natural science.[16] As Mises (1966, pp. 49-50) wrote:

> The course of history is determined by the actions of individuals and by the effects of these actions. The actions are determined by the value judgements of the acting individuals […] The specific task of history, for which it uses a specific method, is the study of these value judgements and of the effects of the actions as far as they cannot be analyzed by the teachings of all other branches of knowledge. The historian's genuine problem is always to interpret things as they happened […] There always remains at the bottom of each of his problems something which resists analysis...of other sciences. It is these individual and unique characteristics of each event which are studied by the understanding […] [This] uniqueness or individuality which remains at the bottom of every historical fact...is an ultimate datum. But whereas the natural sciences cannot say anything about their ultimate data than that they are such, history can try to make its ultimate data intelligible. Although it is impossible to reduce them to their causes...the historian can understand them because he himself is a human being [...] In the philosophy of Bergson this understanding is called an intuition…German epistemology calls this act *das spezifische Verstehen der Geisteswissenschaften* or simply Verstehen. It is the method which all historians and all other people always apply in commenting upon human events of the past and in forecasting future events […].[17]

As social animals, all of us use verstehen in almost every interpersonal aspect of our day to day lives. "Understanding," writes Mises (1978b, pp. 49-50):

> aims at anticipating future conditions as far as they depend on human ideas, valuations, and actions. There is […] no action that could be planned or executed without paying full attention to what the actor's fellow men will do. *Action implies understanding other men's reactions […]* However different we may know ourselves to be from other people, we try to guess how they will react to changes in their environment. Out of what we know about a man's past behaviour, we construct a scheme about what we call his character. We assume that this character will not change if no special reasons interfere, and, going a step farther, we even try to foretell how definite changes in conditions will affect his reactions." (Emphasis added)

Thus, by stepping into the realm of thymology, Bohm-Bawerk does not violate any praxeological rule regarding interpersonal comparisons of subjective value. Rather, he formalizes what we all know a priori; that is, by virtue of verstehen, we all have something of an "inside track" to the estimations of another person's preferences as compared to our own.

In essence, we act altruistically by applying the *specific historical understanding* to the process of *imagining* the well-being of a potential gift recipient (after receiving the gift vis-a-vis before receiving the gift)[18]

and then comparing it to our estimates of our own personal well-being (after giving the gift vis-a-vis using the gift personally).

Essentially, we try to put ourselves inside the mind of the potential recipient by imagining what we would want were we in the same situation. And, although we will never *objectively* know the level of satisfaction another person derives from our gift, we can still *subjectively* predict, or estimate, it by way of verstehen.

Indeed, this explains why, for example, most of us seem to intuitively understand that it is probably more appropriate to give a homeless person a $10 blanket rather than a $40 ticket to the opera![19]

We are social animals with shared inner understanding of what it means to be a thinking, feeling, acting human being. People from all walks of life understand the physical concept of pain and hunger and the emotional concepts of love, hate, sorrow, envy, etc. Such mutual understanding of what it is to be human makes it impossible for most of us to completely and continually ignore the physical and psychological state of other people.

But, while virtually none of us can completely isolate ourselves from the physical and psychological state of other people, this does not mean that we are necessarily always—or even ever—correct in our estimations of this. One reason for this is that we may incorrectly interpret the situation of another person (see text in third paragraph after footnote 5 for a relevant anecdote). Another is because we may not have sufficient "self-knowledge" to know how we would feel or act in a specific situation. Nozick (1981, p. 637) emphasizes this:

> It is not a necessary truth that I will have such reliable knowledge about how I will act, feel, and respond in situations I am not actually in. Verstehen depends not only on the analogy between him and me, but on the adequacy of my own self understanding; in order to work, verstehen must begin at home.[20]

Indeed, just as with all skills, there are some who are better at the *specific historical understanding* (verstehen) than others, i.e., some people are better equipped to imagine what it is like to be a bone-cold shivering and pitiful homeless person.[21] In contrast, someone who has a very narrow or stunted conception of what it is to be human may not be able to, with even remote accuracy, "guess," as Mises (1978b, pp. 49-50) puts it, "how [another person] will react to changes in their environment" or "foretell how definite changes in conditions will affect [another person's] reactions."

These folks, with what we could call a verstehen deficit, and indeed there are some, may find it quite difficult to grasp why a homeless person may prefer a $10 blanket to a $40 opera ticket.

In the extreme we characterize them as antipathetic psychopaths or misanthropes. We shall have occasion to discuss them presently. Neither "psychopath" nor "sociopath" are terms modern psychiatry employs regularly. But, for clarity, it is important to understand they are different. For our purposes, a psychopath has no conscience and so the welfare of others is irrelevant to him. It plays no role (either positive or negative) in his subjective preference ordering. On the other hand, for our purposes, a sociopath normally has a conscience, but it is highly limited or even demented and so his ability to understand the welfare of others is diminished and often has an inverse relation to his own welfare.

However, because virtually all of us, to one degree or another, have this human capability to distinguish and understand different states of being in other people, we cannot help but compare other people's states of being to our own and thus relate, or compare, those states of being with our own ordinal subjective preferences.

This is quite different than passing ethical judgments on another person's state of being. Rather, it is simply to recognize the fact that, because we know what it is to be human, it is virtually impossible for us to exclude the welfare—or state of being—of at least some few other humans from our personal set of subjective preference or wants.[22]

In engaging in altruistically motivated charity, we are offering the recipient *what we believe to be* an opportunity for that person to voluntarily move from *what we believe to be* a less preferred state of being for him to a more preferred state of being. In this manner we expect (or hope) that doing charity will satisfy our own wants, i.e., create a "happier" recipient, and thus improve our own state of well-being.

We cannot possibly overemphasize that these remarks apply to private charitable giving, and not to forced government transfers of funds which may have quite the opposite effect. In this regard states Rothbard (1970, p. 818):

> A common example of direct transfer subsidy is governmental poor relief. State poor relief is clearly a subsidization of poverty, for men are now automatically entitled to money from the state because of their poverty. Hence, the marginal disutility of money foregone from leisure diminishes, and idleness and poverty tend to increase further, which in turn increases the amount of subsidy that must be extracted from the taxpayers. Thus, a system of legally subsidized poverty tends to call forth more of the very poverty that is supposedly being alleviated.

Stated formally, most human beings, by their very nature or essence, have as a positive element in their subjective preference orderings (alternatively called their personal welfare function) the improved welfare of at least some few other human beings.[23]

Uncertainty, Risk and Entrepreneurship: Organized Charity Within the Market Process:

We are none of us capable of perfect knowledge regarding the preferences or values of other people. Thus, by its very nature, verstehen involves uncertainty and, therefore, risk when we employ it to inform our actions. Mises (1966, p. 112) writes:

> *Understanding* is always based on incomplete knowledge. We may believe we know motives of the acting men, the ends they are aiming at, and the means they plan to apply for the attainment of these ends. We have a definite opinion with regard to the effects to be expected from the operation of these factors. But this knowledge is defective. We cannot exclude beforehand the possibility that we have erred in the appraisal of their influence or have failed to take into consideration some factors whose interference we did not foresee at all, or not in a correct way. (Emphasis added)

The uncertainty in verstehen is equally relevant to both commerce and charity.

Commercial entrepreneurs are faced with the problem of interpreting and comparing the subjective values of the consumers who make up their market. Consider the decisions an entrepreneur must make when faced with the choice of whether or not to move resources from one project and commit them to another. First, he must make *objective* profit and loss, i.e., accounting as opposed to entrepreneurial, decisions between the two projects. Then, he must decide (guess) whether or not consumers will value this new investment more than they valued the old one (or the next best option open to them).[24]

Because his accounting decisions are objective, whether he makes a right or wrong *accounting* choice depends only on the technical skill of his accountant. What truly distinguishes him as a successful entrepreneur is the degree to which he correctly interprets and predicts the subjective preferences of his customers; actual and potential. He does this by way of verstehen. Thus, there is, indeed, far more "art" involved in commercial entrepreneurship than is commonly acknowledged.

Likewise, there is far more uncertainty and risk associated with altruistic gift giving than is commonly acknowledged (Hayek 1973; Knight 1921).

Indeed, it is every bit as risky—in principle—as any for-profit entrepreneurial choice. We can never know for sure that comments like "he needs it more than I do" or "I think she will enjoy it more than I will" are accurate.

The ultimate subject of our interpersonal comparisons—as both for-profit entrepreneur and doer-of-charity—are someone else's subjective feelings. So, even after we exhaust the limits of objective knowledge--derived from the a priori sciences of mathematics, logic and praxeology and the experimentally verifiable knowledge from the natural sciences, i.e., conception, we are always still left with a residual uncertainty regarding the accuracy of our interpretation.

And, imperfect knowledge implies risk should we choose to use it to direct our actions. By employing our innate (although widely differing in accuracy) grasp of the *specific historical understanding*, however, we can, to a degree, remove-some of the residual uncertainty and, thus, further reduce the risks associated with both for-profit entrepreneurship and charitable actions.

Commercial entrepreneurs who best overcome this knowledge problem, i.e., those who best understand the current and future preferences of their clientele, rise to the top.[25] Similarly, contributors of charity who best overcome the related uncertainty and risk of charitable action emerge as the most successful.[26]

Just as unskilled investors sometimes bet on successful for-profit entrepreneurs, potential donors who are less skilled at overcoming the relevant uncertainty and risk will prevail upon the skill and knowledge of successful charity entrepreneurs with whom they share common sensibilities.[27]

In short, the uncertainty and risk associated with altruistic charity is the underlying reason we see organized charities—directed by successful charity entrepreneurs—emerge in a predominantly for-profit economy.

The Austrian market-process approach to organized charity is in contrast to-two prominent and seminal—but in our view unsatisfactory—theories of the emergence of charity (eleemosynary) organizations.

The first is that proposed by Weisbrod (1977, 1988).[28] He, along with most other economists, erroneously accepts the argument that, due to supposed free-rider problems, the voluntary market cannot supply the "socially optimal" quantity of a collective good. Thus, in order to ensure the "socially optimal" supply, a public good must be provided through the coercive powers of the state. However, according to Weisbrod, the state faces problems of its own in determining this "socially optimal" supply of collective goods in that some member(s) of the community will be undersupplied. He maintains that eleemosynary institutions provide a method by which these people can increase their consumption of that collective good. These organizations may still face the same problems that trouble government, but, according to his thesis, this will not preclude provision of collective goods and services. Rather, argues Weisbrod (1977, p. 60): "since all the alternatives available to under-satisfied demanders involve inefficiencies, it could be worthwhile (that is, efficient) to form and maintain voluntary organizations as a 'second best' solution." A fatal difficulty with this position is that the "public goods" argument is highly problematic. [29] It turns out that each and every so-called "public good" which is not supposed to be able to be supplied by private enterprise, has indeed been provided[30] by this institution.[31]

The other is the *Contract Failure Theory*—postulated by Hansmann (1980)[32]—which argues that there are certain goods and services whose quality and quantity are difficult for the consumer to judge; thus, an incentive exists for the profit-seeking entrepreneur to exploit this information asymmetry, cheat on the contract, and deliver an inferior product or none at all. Because charitable organizations face the legal non-distribution constraint, i.e., profits cannot be distributed to residual claimants, nonprofit managers have no incentive to exploit this knowledge asymmetry. Therefore, concludes Hansmann, consumers will choose to utilize the services of the presumably more trustworthy nonprofit firm to avoid being cheated by unscrupulous profit seeking entrepreneurs.

The most obvious criticism of this spurious theory is that the so called legal non-distribution constraint is no guarantee against fraud and deception on the part of the directors and management of an eleemosynary organization (just as the threat of imprisonment is no guarantee against fraud and deception in a for profit firm). Two particularly unsubtle examples of this are the Jim and Tammy-Fay Baker scandal of the

1980s and the conviction of William Aramony—the long-time president of United Way of America—and two conspirators, Thomas Merlo and Stephen Paulachak, in 1995 for the embezzlement of over a 1.2 million dollars of contributions for their personal use. Aramony was himself convicted on 25 felony counts and sentenced to seven years in prison. A more recent example concerns Bernie Madoff. (See Jones and Block 2021).

Entrepreneurship & Charitable Action:

By examining the process by which economic choices are made in a donation funded charity (eleemosynary organizations), we can better understand the role of entrepreneurship. This process has been most eloquently described by Rothbard (1981).

Consider first the for-profit firm. Here entrepreneurs produce goods or services and exchange them for money with consumers. It is the expectation of this monetary income from consumers that guide the entrepreneur's decisions.

A firm can acquire funds from two sources: 1) exchanging with its customers; and 2) outside investments. But, the latter do not represent "income" to the firm. They are simply investments of capital from other speculating entrepreneurs. These new injections of investment capital are used by the firm to purchase additional resources needed for the production of the goods or services that are ultimately sold to consumers for monetary income.

Entrepreneurs make such investments with the anticipation that they will receive greater returns from their share of the sale of the firm's products than they will by any other use of their money. Rothbard (1981, p. 520) states:

> Although the conspicuous resource and production decisions in the market are made by capitalist-entrepreneurs—by the owners of the firm and its capital assets—these decisions are made in accordance with their expectations of monetary income from customers. In short, the businessmen are guided by the quest for monetary profits and the wish to avoid monetary losses, and their forecasting and anticipations must turn out to be good enough to reap profits from their production decisions. The intake of investment funds into the firm, then, is subordinate to the expected profit to be made from sales to customers.

An entrepreneur's anticipation of consumer demand (by use of all information including verstehen) guides his production decisions and the successful satisfaction of that demand generates income. In the long-run, it is always the preferences of consumers, and how well or poorly the entrepreneur interprets them, which determines his production decisions and ultimately his income and very survival.[33]

Furthermore, when consumers spend money in exchange for the firm's goods or services, they benefit. The choice to spend is a voluntary one. It indicates that the consumer has a preference for the good or service purchased over all other uses of his money. While the entrepreneur benefits by making decisions that result in income and profit, so too does the consumer benefit. As Professor Rothbard (1981, pp. 521-22) states:

> The more efficiently and ably the firms anticipate and serve consumer demand, the greater their profits; the less ably, the less their profits and the more they suffer losses [...] Good forecasters will be rewarded with higher profits and incomes; poor forecasters will suffer losses and finally leave the business. So that the market tendency is toward a high level of fit between anticipation and reality, and for a minimum of erroneous investment. Producer income, therefore, reflects consumer benefit even more closely than we might at first realize.

The situation is somewhat different for the charity firm; but the fundamental process is the same. Unlike a commercial business, in a charity the producers (investors) and consumers are one and the same.

Let us assume a charitable organization obtains its income from the donations of its members or contributors. Unlike the profit-sector firm, its goals are not monetary profit but rather the satisfaction of the common psychic (subjective) desires, or sensibilities, of its donors. They demand the production of charitable acts. So, the "service" the organization produces for its donors is simply the production of these charitable acts.

Those same donors are also the consumers. They do not consume the actual act of charity; rather, they consume the enjoyment of helping the organization fulfil its purpose i.e., the production of charitable acts. They demand a service, invest in its production, and consume it. In this way the donor is both producer and consumer.

> ...the members are the "consumers," except that they consume the services of the organization not by purchasing a product but by helping the organization pursue its goals. The member-donors are at the same time the consumers and the investors, the consumers and the makers of the production decisions. The organization will employ as much of its resources as the member-consumer-donors desire to contribute to the pursuit of their goals (Rothbard 1981, p. 523).

It is true that the direct recipients, or beneficiaries, of the charitable act are also consumers. They are consuming the result of the act however. This is quite different from directly consuming the "service," i.e., the production of the charitable act itself. Recall that in the profit sector, it is his interpretation of the potential future preferences of paying consumers that ultimately directs the entrepreneur's production decisions. Satisfying consumer demand is what leads to fulfilling the goal of the company: profits. The very same process occurs in the charity organization (the only difference being the nature of the goal and the identity of the consumers).

We cannot consider the recipient(s) of a charitable act as the organization's "critical" demander(s) because their consumption does not guide the organization's fundamental production decisions. Their consumption does not contribute revenue to the organization. Therefore, they have no direct impact on the organization's decision to produce one charitable act or another. Somewhat paradoxically, satisfying the demands of beneficiaries does not, in itself, fulfil the organization's goals: the production of charitable acts which coincide with the donor's sensibilities and satisfy his subjective preferences. The recipient's consumption is simply the consequential result of the organization's meeting the demands of its donors.

Indirectly the recipients of charity affect production decisions but only in the sense that they influence the preferences of the donors. To be sure, if there were no poor people the donor would not likely display a preference for contributing to organizations that aid the poor. But this is not at all helpful in understanding the processes by which the charity entrepreneur makes economic choices. Rothbard (1981, pp. 523-24) alludes to this:

> Suppose, for example, the organization is a charity giving alms to the poor. In a sense, the purpose is to benefit the poor, but the actual consumers here, the guides to production decisions, are the donors, not the recipients of charity. The charity serves the purposes of the donors, and these purposes are in turn to help the poor. But it is the donors who are consuming, the donors who are demonstrating their preferences for sacrificing a lesser benefit (the use of their money elsewhere) for a greater (giving money to the charity to help the poor). It is the donors whose production decisions guide the actions of the charity.

In the commercial sector, the success of the firm i.e., whether or not it returns a satisfactory profit, is what guides the investor's decision. This process is also true of the eleemosynary organization. However, the charity donor/investor/consumer usually cannot observe monetary purchases—by the beneficiary—and so their judgement of the organization's performance is less accurate than it would be in the profit sector. The

donor/investor/consumer can only subjectively interpret—by way of verstehen—how effective the organization is at aiding poor families or whatever service the particular organization administers.[34]

Exact profit and loss testing, as a determinant of success, is precluded due to the nature of charity. However, because contributors donate their money voluntarily, we must conclude that they have duly considered this fact, included it in their calculations and still arrive at the subjective belief that the donation is the best i.e., most welfare maximizing, of all possible uses of their contributed money.

Some charities, in addition to providing goods and services gratis, may also sell some of their products at a subsidized price. The recipient's demonstrated preference for the subsidized goods and services helps to indicate his interest in the products the organization offers. The donors, however, still provide the fundamental impetus for production decisions. The displayed preferences of all recipients (revealed by how much of the subsidized product they purchase) serves as a partial indication to the donors that their contributions are or are not being used optimally.

There are now two consumers: the donors, and the charity recipients, each of whom demonstrates their preference for this organization in contrast to other uses of their money, or time. The overall purpose of the organization is not to make a profit, but rather to serve the values and goals of the donors, and so the donors must be considered the regnant consumers in this situation (Rothbard 1981, p. 525).

Clearly, the charity entrepreneur, in order to survive, must be able to match the efforts of his charitable organization with the desires, preferences and sensibilities of its member/donors.

So long as that charity entrepreneur continues to share the donor's sensibilities and continues to make "production" choices which satisfy the subjective needs and preferences of the donor, the donor will likely continue to contribute.

Austrian Theory of Charitable Action:

From the Austrian economic point of view—praxeology—we act charitably for precisely the same reason we act any other way. Indeed, whenever we act, we do so with the anticipation that the results will obtain for us a more preferred state of affairs by replacing what we consider a less preferred one.[35]

While pure economic theory does not concern itself with the motives of acting man, we are so used to conceiving of charitable action in terms of its benefit to the recipient (i.e., charity motivated by altruism) that it is useful (and perhaps almost unavoidable) to employ such an Ideal Type for expositional ease.

Indeed, as Rothbard (1977b, p. 148) states:

> …[t]he reason that anyone contributes voluntarily to a charity is precisely the benefit that he obtains from it. Yet benefit can only be considered in a subjective sense. It can never be measured. The fact of subjective gain, or benefit, from an act is deduced from the fact that it was performed. Each person making an exchange is deduced to have benefitted (at least ex ante). Similarly, a person who makes unilateral gift […] is deduced to have benefited (ex ante) from making the gift…the benefit from an action may come either from a good or a service directly received in exchange, *or simply from the knowledge that someone else will benefit from a gift* (Emphasis added).[36]

Clearly, in the particular case of charitable action, our preference ordering *may* include the wellbeing of other people, i.e., the subjects of our charity. And, in econolingo, we say that under these conditions our personal welfare is *positively* interdependent with that of these others.

Charity & the Theory of Interdependent Personal Welfare:

Thus, our use of the "Ideal Type" in examining Bohm-Bawerk's conception of charity is simply an extension (more accurately, an anticipation) of the Theory of Interdependent Personal Welfare as it relates to charity.[37] In essence it states that a man's personal welfare, i.e., wellbeing, happiness, intensity of satisfaction, etc., is to *some degree* related to his *interpretation* of the personal welfare of at least some few others.

The Theory of Interdependent Personal Welfare is most often used to describe conditions, such as altruism, where the welfare of others' is positively related and our own personal well-being, i.e., our welfare improves when the welfare of other people improves. However, as Schwartz (1970, p. 1267) points out, the theory does not imply this assumption. Indeed, it can be used to explain antisocial, misanthropic and hateful behavior. In this case, the interdependence is a negative relationship and the miscreant's personal welfare improves only when the welfare of other people diminishes.[38]

The Theory of Interdependent Personal Welfare is especially relevant within the family but also extends—but, with diminishing relevancy—to friends, acquaintances and even strangers. That is, the more closely associated we are with those whose state of wellbeing is informing our own, it is likely that the more accurately will we interpret their situation.

Furthermore, the theory implies that it is rational (in our own self-interest) for people to *try* to affect the welfare of others. That is, by affecting another person's wellbeing in a manner appropriate to our system of values, we may derive increased personal satisfaction, i.e., we may obtain a more preferred state of being. Thus, the theory illuminates *one* very common and strong motive for charitable action. When we do charity—motivated by the anticipation of improving the welfare of the recipient, i.e., altruism—we anticipate getting something in return: improved personal welfare.[39]

Charity & Unilateral Exchange:

In bilateral exchange, i.e., common market exchanges, there is always an objective quid pro quo; both exchanging parties expect a direct cost and a direct benefit from the exchange. For example, when the baker agrees to exchange with you he does so knowing that for every loaf of bread he gives you (his cost) you will give him one dollar (his benefit). Likewise, you exchange with him knowing that for every dollar you give him (your cost) he will give you one loaf of bread (you benefit).

Charity, however, is a unilateral exchange which implies a unique subjective, or invisible, quid pro quo.[40]

It is unilateral in the sense that only one party (the benefactor) is purposely trading something. Only the benefactor expects to suffer a cost (the gift) in return for a benefit (his improved personal welfare). The beneficiary expects only to enjoy a gift, he does not expect to suffer a cost in the exchange.

The benefactor's quid pro quo is unique in the sense that even though he expects both a cost and benefit from his charity, the other party in the exchange, the recipient, does not expect to give something in return for the gift. With the exception of the "time cost" associated with accepting the gift, the recipient does not suffer a cost (ex ante) in exchange for a benefit.[41]

In the objective sense, the exchange is one sided. Only one party (the benefactor) purposely gives something up in exchange for a benefit. The fact that our gift directly benefits the recipient and that our personal welfare is improved by giving the gift does not imply that we intended to benefit the recipient or that he intended to give us something in return.[42] From the recipient's perspective, the quid pro quo is accidental and therefore unique.

The benefactor gives something and expects to benefit (improved personal welfare). In contrast, the beneficiary does not knowingly or purposively give but does expect to benefit. The beneficiary suffers no cost in the exchange, i.e., he gives up nothing.

Charity & the Public Goods Issue:

One problem with employing the "Ideal Type" construct in studying charitable action (in a more general sense the Theory of Interdependent Personal Welfare) is that researchers often proceed as if altruism, i.e., concern for the welfare of others', is the *only* motive for charitable action.

This myopia leads to all sorts of confusion, not the least of which is the erroneous and logically stunted concept of charity as a so-called public good subject to the free rider "problem." This is turn has led many theorists to invoke the market failure bogeyman and the consequential need for government intervention in the market for charitable action.[43]

This so-called public goods argument can only apply if altruism is assumed to be the *exclusive* motive for charitable action.[44] The benefactor receives a special quid pro quo: the satisfaction from *understanding* that the beneficiary's welfare is improved. But according to the public goods argument, *understanding* that the recipient's welfare is improved is not exclusive or unique to the benefactor. It is, so the argument goes, an example of the classic public good.

Unless his charity is both given and received in complete secrecy, the charitable actor can exclude no one from vicariously enjoying his altruistic boon. That is, improved personal wellbeing—from the *understanding* that a charity recipient's welfare has improved—can be enjoyed by anyone who believes someone else received a gift.

Thus, the argument goes, our doing charity generates an altruistic externality, i.e., an external effect which benefits others than ourselves and the recipient, but from whom we cannot exact payment for this benefit.

The public good theory of philanthropy implies that it is rational (in our self-interest) for us to *not* do charity and, instead, take a free ride on the charity of others. For, if just *understanding* that the recipient's welfare is improved is all that is required to improve our own personal welfare, then it does not matter if we are the ones who make the gift. The effect is the same.

The obvious conclusion is that all *rational* altruists will choose not to act charitably but to take a "free ride" on the backs of generous people. In the end, so few will act charitably that no one's need for altruism is satisfied; voluntary contributions are undersupplied, and the charitable sector of the market is said to have failed.

As with all other arguments invoking the market failure concept—the market's presumed failure to supply optimal quantities of a good or a service to maximize *social utility*—this conclusion typically forms the so-called *scientific* justification for government intervention; in this case, into the charitable sector of the market.[45] Government, through its monopoly on institutional force, can exact payment from noncontributors—the so-called free riders—through the imposition of a tax which can then be used to supply the socially optimal quantity of charity.[46]

Even supposedly staunch opponents of government intervention, including Friedman (1962) and Buchanan (1987) accept the public good theory of philanthropy as justifying government action to alleviate poverty.[47]

It is noteworthy that no public goods theorist can objectively demonstrate what precisely the "socially optimal" quantity of anything is. Sure, he can recite the theoretical conditions of equilibrium: "when supply equals demand." But he cannot explain how he would know when such a precise real-world state was achieved and, even if he could, how he would or could maintain it. What he fails to grasp is that equilibrium analysis is at best a heuristic device. The "socially optimal" quantity (and time of occurrence) of a good or service is elusive to anything approaching the specificity required for "government action". To employ a metaphor, it is phantom-like; one can almost approach but it slips away before hands can be laid on it. Supply and demand conditions are ephemeral and any "equilibrium" between them is never, and can never be, static over time and space. The "socially optimal" quantity is an indefinable result of an ever-changing and dynamic market process; it is not a "condition", and neither is it "engineered" or "manageable". (See Mises 1966, chapters 14 & 15. Also, Lewin 2011 and Lachmann 2020 [1986]).

The Austrian Response to the Public Goods Issue:

The public goods notion of charity leaves is with an interesting paradox. On the one hand, our "Ideal Type" construct—which assumes altruistic motives—tells us it is rational to do charity. On the other hand, the Public Good Theory of Philanthropy—which also assumes altruistic motives—tells us it is rational to not do charity.

This contradiction obviously forces the question; if the Public Goods Theory is correct, why do we see charity at all?

The solution to this supposed paradox is that this theory of philanthropy is erroneous—on at least two counts: 1) it is not a scientific theory so its conclusions cannot be accepted as objective fact. Rather, it is an explicitly normative-value-laden defense of a particular kind of government intervention; 2) altruism is not the exclusive motivation for charitable action. Indeed, many other motives for charitable action exist which are not in any way related to altruism and thus any altruistic externality and the imagined public goods dilemma. The next section of this paper discusses some of these alternatives, but it is in no way meant to represent a comprehensive enumeration.[48]

Alternative Motivations and Factors for Charitable Action:

1) *Altruistic Externality as Arbitrary Value Judgement*: As we discussed when introducing the "Ideal Type" construct, pure economic theory does not concern itself with an actor's motives—just his actions. Thus, by using the "Ideal Type" construct we did indeed go beyond the pure logic of choice by assuming altruism as a motive for the charitable actor.

We remained value free, however, to the degree that we did not comment on the propriety of that, or any other, motive. That is, we made no claim that such a motive was exclusive to charitable action—in fact, we explicitly stated that it is not—nor that it is the only ethically defensible motive.

This is in contrast to the public goods argument which implies the propriety of the altruistic motive, i.e., it assumes altruism to be "socially correct" or "good." Furthermore, it implies that the altruistic content of any charitable action is universal, i.e., what is altruism, for one person is altruism for any other.

However, even if altruism (acting for the *good* of others') could be objectively shown to be the *proper* motive for charitable action, it would still be improper to assume all altruists understand the *good* of others to be the same thing as they themselves interpret it. What one altruist may interpret as good for a recipient of charity another may interpret as harmful or bad. Indeed, there is no universal *good* given the huge variety of subjective values and preferences.

On this point alone the public good theory of philanthropy crumbles; since the content of altruism, i.e., what is *good* for others, is different for different people there can be no common or universal altruistic externality.[49]

Moreover, this imposed norm presupposes that the so-called altruistic externality is a welfare *boon* to everyone it affects. But, why should we accept this? Indeed, what about the misanthrope? To him the altruistic externality would be a negative externality or external diseconomy.[50] After all, the curmudgeonly misanthrope likes to see the welfare of others decline. Any charitable action that improves the welfare of a recipient would impose a utility *loss* on the misanthrope. Thus, the altruistic externality (if such could be proved to exist) may be either a utility boon or a utility deficit depending on one's system of ethics.[51] And, it is not the proper role of the economist to judge what is the "correct" ethical system one should hold.[52]

The normative reasoning of the public goods argument leads to the conclusion that it (the positive altruistic externality as interpreted by the altruist) is *the* proper and only externality for the state to internalize, i.e., the government must internalize this so-called externality by taxing all those altruists who enjoy altruism vicariously—the free riders—and thus supply the proper socially optimal amount of charity.[53]

However, as value free economists we must consider all possible externalities. For example, in the case of poverty, there is an externality the non-poor altruist experiences due to the mere existence of the poor;

we can call this the "pitiful poor" externality. For the public goods theory to be consistent it must presuppose this external diseconomy, i.e., the heart strings of the non-poor are tugged (they suffer a utility loss) by observing the plight of the impoverished.[54]

Block (1993, p. 252) employs a *reductio ad absurdum* to show the directions the public goods theory can lead when employed consistently without resorting to normative judgements:

> Why does the argument lead to the conclusion that poverty must be alleviated? If it is a negative externality, perhaps it should instead be *prohibited*...Suppose that someone were to claim that he were distressed not by the sight of poverty, but by a very different occurrence also described by a word beginning with a "p" and ending with a "y," namely pornography. This person, too, would be benefited equally whether I or someone else pays for its elimination. In the debate over pornography, no one seriously advocates that society should band together, raise money through taxes, in order to *pay off* the pornographers. Rather, opponents propose *banning* it. But what is sauce for the poverty goose should be sauce for the pornography gander, if we are to be consistent. Both are claimed to be negative externalities. They cannot be treated in so vastly a different manner without justification; and none is offered by the argument. So what might follow form this line of reasoning is that poor people should be punished, or banned, or deported; alternatively, it follows with equal logic that pornographer be subsidized, if they agree to desist.

By assigning normative value to these externalities (i.e., negative pitiful poor externality; positive altruistic externality), the public goods theory of philanthropy has gone beyond science. That is, by purposefully excluding the preferences of misanthropes (or simply non-altruists), the theory arbitrarily assumes the preferences and values of altruists are superior. This, the importation of ethical judgements, is the antithesis of the scientific method.

Moreover, it is simply incorrect to assert the propriety of this sort of government intervention on the grounds that most people are *concerned* for the wellbeing of their fellow man and that public goods theory may thus justly ignore the preferences of non-altruists, i.e., the minority. For this, without question, violates *Pareto's Unanimity Rule*...the ultimate litmus test of welfare economics.[55]

As Rothbard (1977a, pp. 21-22) puts it:

> This rule runs as follows: We can only say that "social" welfare" (or better, "social utility") has *increased* due to a change, if no individual is worse off because of the change (and at least one is better off). If one individual is worse off, the fact that interpersonal utilities cannot be added or subtracted prevents economics from saying anything about social utility. Any statement about social utility would, in the absence of unanimity, implies an ethical interpersonal comparison between the gainers and the losers from a change. If X number of individuals gain, and Y number lose, from a change, any weighting to sum up in a "social" conclusion would necessarily imply an ethical judgement on the relative importance of the two groups.

But, in his role as a value free scientist, an economist must not make such pronouncements. On these grounds, public goods fail as a scientific theory; it does not and cannot objectively demonstrate that charity is more a public "good" than a public "bad."

At best, all it can say, and still remain scientific, is that charity *may* cause external economies (if it is a public good) or external diseconomies (if it is a public bad) or, indeed, both at the same time, for different people. Disingenuous is the economist who claims the public goods theory can *scientifically* direct public policy regarding the supply of charity as it affects the social welfare.[56] As Block (1993, pp. 252-253) writes:

> Some people may be distressed by the sight of poverty, but others might relish this state of affairs, perhaps as a means of lording it over others. Giving welfare to the poor, then, might promote the

> welfare of men of good will, but it will reduce that of the misogynists *[and misandrists - MDH]* among us. Since there is not and cannot be any scientific method of making interpersonal utility comparisons, we cannot rigorously conclude that welfare programs unequivocally improve the well being of society as a whole.

2) *Charity Beyond the Altruistic Externality*:[57] The public good theory of philanthropy says that people are motivated to do charity for purely altruistic reasons. Since altruism is a public good, all active altruists generate an altruistic externality. Thus, a rational altruist will take a free ride on the charity of others by enjoying the altruistic externality without contributing. But, as Block (1993, p. 253) writes:

> ...externalities, should they exist, can be internalized through the operation of a free society. This is done in many different ways. People are given buttons to denote their contributions. Those without them are looked down upon. High society patrons hold charity balls. It is of great importance, in some circles, to be invited. But guest lists are highly correlated with charitable giving. Making a contribution, especially a highly public one, is good advertising for businessmen. This must be a large part of the explanation of the endeavors, not to say the very existence of, groups such as the Rotary, the Elks, the Moose and similar institutions. People of a religious persuasion are convinced that helping the poor in this vale of tears can help square their accounts in the world to come… As well, the standing of businessmen who are part of the religious community is heavily dependent upon charitable contributions to this quarter.

We can state the public goods theory formally; an altruist will free ride if his net personal welfare improvement of doing charity (NPWIDC)[58] is less than his net personal welfare improvement from free riding (NPWIFR).[59]

Since, as the theory assumes, understanding that the recipient's welfare is improved is a public good—that is, it is free to consume—then, according to the public good theory of philanthropy, it is virtually always the case that NPWIDC < NPWIFR.[60]

The theory, however, overstates itself because it does not reflect the real world of human institutions and sociological factors. Namely, it errantly holds altruism as the only motive for charitable action. Moreover, it depends upon two other equally erroneous assumptions: 1) there is no cost to free riding and, 2) the cost of doing charity is fixed in the sense that nothing can lower it.

There are, however, sociological factors, i.e., egoistic motives, moral suasion, and personal values, which do make free riding a costly practice and, thus, less appealing. Likewise, there are institutional factors which increase the cost of free riding or lower the cost of doing charity. When these factors are considered, it is not necessarily the case that NPWIDC < NPWIFR.

Even cursory observations of the real world reveal that the conclusions of public goods theory to be wrong. "The point is," writes Block (1993, p. 253): "we have overwhelming evidence suggesting that people do not wait for the assurance that others will give before doing so themselves. On the contrary, they give in any case, and they give generously, even when they know that others will *not* give as generously, or indeed, give at all."

The Ego:

a) *The Anti-Nash Conjectures Motive:* In an important article, which did much to expose the fallacies of the public good theory of philanthropy, Sugden (1982) showed that an essential assumption upon which it depends—the Nash Conjectures—is erroneous.

Nash Conjectures arise out of the study of large numbers in which a change in any individual constituent has little or no impact on the group.[61] The public good theory of philanthropy rests in the Nash Conjectures because it assumes that all people behave as if their actions will not affect the actions of others.

For the public goods theory of philanthropy to hold, each potential donor, when choosing whether or how much to give, must act as if everyone else's contributions is fixed and will not be affected by his own actions, i.e.., the free rider must believe that his choice to free ride will not affect the amount of charity done by other people.

For example, if we wish to *not* contribute and, thus, free ride on the contributions of other's, then we must believe that our *not* contributing will have no impact on the giving habits of everyone else. After all, we depend on the giving habits of everyone else so that we can enjoy the benefits of the free ride.

If, on the other hand, we believe that our *not* contributing will cause everyone else (or even a few others) to stop contributing, or at least reduce their generosity, then we will have less incentive to free ride since our free-riding actions will cause an overall reduction in charitable activity. In the long run, we will gain little by free-riding and perhaps even lose if the continued success of the particular activity (purpose for the charity) is important to us.

If we believe that our charitable actions (or non-actions) are important and effect other people's inclination to be charitable (the Anti-Nash Conjectures), then, by the same reasoning, if we free ride our actions may well encourage other people to free ride.[62]

Nor will hiding our non-giving, i.e., secretly free riding so that our actions do not affect other givers, solve the cost problem. Subterfuge, especially in an intimate setting, requires considerable effort. And, while others may not reduce their contributions when we free ride, we will still suffer a cost; the cost associated with the effort, time, etc. required to hide our non-giving.

Thus, the egoistic belief in Anti-Nash Conjectures means that there may very well be a cost to free riding.[63]

b) *The My Charity Is Better Than Your Charity Motive:* This ego-based motive implies that we do not get the same welfare boost from every charitable act we see performed, i.e., the content of altruism is not the same for everyone. Indeed, we may even believe that other people's charity is harmful to the recipient if it violates our peculiar sensibilities.[64]

Consider a hypothetical example of an isolated and impoverished central African village. The culture of its inhabitants is such that women have no rights and are considered the chattel of men. The men hunt and tend the cattle. The women must do all the other work.

Now suppose there are two North American groups that wish, due to altruistic motives, to improve the living conditions of the villagers—especially that of women: the first is a Roman Catholic charity, the second is a Marxist-feminist collective.

The Roman Catholic charity proposes to send a mission to the village to teach the villagers the gospel. They especially wish to teach the village men Christian charity and love for the women. In addition, they wish to teach the villagers good hygiene, and improved animal husbandry and crop cultivation.

The Marxist-feminist collective proposes to send a tribunal to the village to teach the women proper hygiene, but especially birth control techniques. Moreover, it proposes to teach them that by banding together they can make themselves economically independent of the men and thus free themselves from a male tyranny.

Now the judgement of which approach is correct is not the role of the economist. However, this much is certain; neither group will interpret the efforts of the other as benefitting the welfare of the villagers. Indeed, the Roman Catholic's will deplore the teaching of birth control as a fundamental evil and the Marxist feminists will deplore the teaching of Christianity as a perpetuation of a male domination.

Neither the charitable actions of the Marxist feminists nor the Roman Catholics could be considered to create an altruistic externality, one for the other. Thus, to ensure that charity to the African village does not violate their personal (collective) sensibilities, each organization will have to do its own charity. Thus, this egoistic notion that "my charity is better than your charity" means that there is a cost to free riding.

c) *The Charity as Therapy Motive:* In some cases, we may get an added satisfaction from *actually doing* a good deed ourselves. This additional sense of wellbeing cannot be obtained if we free ride. Even though our personal welfare may be improved by just seeing charity being done by others, there is something additionally welfare enhancing when we actually do the charity ourselves, i.e., charity as therapy.

As Lippitt and Schindler-Rainman (1975, p.15) write:

> Most volunteer activity...makes a significant contribution to the volunteers's own psychological health and self actualization […] It is our conclusion that individual volunteers need volunteering just as much as the community needs them.[65]

When we free ride we necessarily forfeit this added satisfaction. Thus, the charity as therapy motive means that at least some of the time there is a cost to free riding.

d) *The Political Motive:* It is often good (personally beneficial) to be seen to be doing good so one of the costs of free riding is forfeiting this "political" windfall.

For example, an individual planning to run for practically any public office is wise to get involved in the volunteer community so as to create an image of civic interest. There is also the desire to maintain a position of prestige in a community. As Thomas Ireland (1969, pp. 23-31) writes: "working in charitable organizations, the directions of which tends to lie under the control of local elites, is a means to rising in the favor of the local elites."

This motive is similar to the *Charity as Therapy Motive* in that it is the physical act which is important. That is, both motives are primarily concerned with the need to act rather than the need for a particular result.

With the Political Motive, however, all the actor really cares about is that he appears to be doing good. Indeed, even if he believes his actions are completely valueless with respect to the "beneficiary," but look altruistic to the people the actor wishes to impress, the conditions for the Political Motive are satisfied.[66]

In order to gain the benefits associated with the Political Motive, one must actually perform a charitable act or at least appear to. A free rider, therefore, must necessarily forfeit any political benefits, i.e., social acclaim etc., associated with charitable action; this is yet another example of cost associated with free riding.

Social Pressures:

a) *The Nobody-Likes-A-Loafer Motive*: Free riding brings with it potential social ostracism. Most people hate "loafers" and free riders are loafers. If we free ride we risk being found out. If we get found out there is a potential that we will be condemned as loafers. If we are labelled loafers there is a potential that we will be ostracized. We may choose to do charity just to avoid the possibility of getting caught free riding and likewise the social ostracism which may follow.

Thus, the potential loafer stigma, and the social ostracism that may accompany it, raises the cost of free riding.

b) *The Condition-Of-Membership Motive:* Under some social conditions doing charity is a requirement for belonging to the group. Social ostracism will occur if we are caught free riding. We cannot free ride if we wish to belong to the group.

Unlike the Political Motives (where just the appearance of doing charity is sufficient) and unlike the Nobody-Like-A-Loafer motive (where the possibility of ostracism is less than 100%) to obtain the benefits of the Conditions-Of-Membership Motive a member Must do charity because it is a membership requirement.

Indeed, many clubs (the Lions Club, etc.) make doing charity—not just its appearance—a condition of membership. In this case, the cost to free-riding behavior is being black balled.

c) *The Honesty Motive:* Most people are honest and feel it is wrong to cheat. Free riding is cheating, and honest people will not free ride.

This is different from the Nobody-Likes-A-Loafer Motive and the Condition-Of-Membership Motive since it does not matter if other people know we free ride. All that matters is that we know we free ride. If we believe we are honest, but, continue to free ride, then we participate in self-deceitful behavior. Self-deceitful behavior causes personal conflict and personal conflict carries subjective costs, Thus, at least for honest people, there is a significant cost to free riding.

d) *The Religious Principles or the Guilt Motive:* A common ethical principle in almost all cultures holds that it is wrong to not help a genuinely needy person when we are easily able to do so. So pervasive is this ethical principle in the Judaic-Christian-Islamic cultures that those who have an abundance of wealth and refuse to help someone who is obviously needy often feel guilt.[67] Under these conditions, free-riding behavior may well generate a nagging feeling of guilt. This guilt of conscience may reduce the free rider's personal wellbeing which is, indeed, a very real psychological cost.

Again, we see that free-riding behavior, contrary to the assumptions of the public goods theory of philanthropy, may have an associated cost.

Institutional Factors:

a) *Organized Charity As Clearing House*: People who are moved to do charity, but, lack knowledge about (or are unskilled in interpreting the needs of) their intended recipients—i.e., people who are poorly skilled at overcoming the uncertainty and risk of donating—may find it advantageous to prevail upon the skills and knowledge of successful fundraisers with whom they share common values and sensibilities.

This division of labor, is one important reason why organized charity firms emerge in capitalism; charity entrepreneurs must abide by the forces of the market. They must match the goals of their charitable organization with the desires, preferences, and sensibilities of its contributors. Charity organizations are a sort of risk-reducing conduit between people who wish to donate, and the intended objects of that giving, the recipients.[68] This clearing house services tends to lower the cost of doing charity as it reduces the uncertainty and, therefore, risk associated with charitable action.

b) *Entrepreneurship, Product Differentiation And Exclusion:* In economic theory, and in real life, free-riding behavior is simply a technological problem of exclusion. That is, find a way to exclude noncontributors from enjoying the "altruistic externality" associated with your charitable action and you have solved the free-rider problem.

In the for-profit sector of the market it is competition for economics profit that, over time, can solve the technological problems of exclusion. Likewise, in the charitable sector of the market, competition of time, money and property can solve the technological problems of exclusion.

But it is often argued by the proponents of the public goods theory of philanthropy—all public goods theory, for that matter—that, by definition, externalities associated with so called "public" goods will always and ever elude the possibilities of technology exclusion. However, Cowen (1988, p. 6) writes:

> The unavailability of suitably cost-effective exclusion technology may be due to the public sector's monopolization of the provision of the good or services...the "publication" of many of the goods and services supplied by the public sector is a result of their provision, not a cause of it. Public sector monopolization may have stifled the incentive to develop exclusion technologies. When we examine the nature of such goods and services, their public provisions appears necessary because

> exclusion technologies are either too costly or completely unimaginable (just as exclusion technologies for many modern private goods—and the goods themselves—were unimaginable in the 18th century).

In the charitable sector of the market, the money and time, etc., that people are willing to contribute is finite, Indeed, there is rigorous competition among charitable causes for available contributions. This competition encourages charity entrepreneurs to discover new marketing techniques that minimize the enjoyment to people who, without contributing, might otherwise enjoy the real and psychic benefits of the charity.

For example, consider a firm described and marketed only as "aid to third-world children." This is a good candidate for embodying significant altruistic externalities. For it is close to impossible to keep a noncontributor from enjoying the psychic benefits of knowing that, somewhere out there, nameless third-world children are being helped.

Moreover, any entrepreneur offering this service is providing a generic product that is more or less like that provided by his competitors. Because there is no real differentiation between services offered by other members of this industry, it makes little difference which charity firm a person patronizes.

If, however, a charity entrepreneur changes the aid package he offers—for example, by somehow personalizing it to the sensibilities of the contributor—the charity entrepreneur can differentiate his product from that of his rivals. By so doing, he may be able to outcompete his rivals.

Plan International (formerly Foster Parents Plan) and ChildFund (formerly Christian Children Fund), for example, allow families to contribute money towards the welfare and education of a specific third-world child. A particular child receives assistance from a particular family for as long as the family chooses to continue donating. The family essentially adopts the child; the family and child often exchange photographs and letters. Indeed, many such families have gone to visit their "adopted" child and have had the child visit them. The family is regularly informed by the organization about the child's progress and can easily see how important its contribution is; for, not only does the child directly benefits from the family's generosity, but, so too—although more indirectly—does the child's own family and village.

These organizations, in an effort to compete donations away from their rivals, innovate the services they provide. By so doing they create benefits that do not exist in other programs and from which non contributors (free riders) can be excluded. Indeed, one must actually contribute in order to enjoy them. As Friedman (1985, p. 276) states:

> [...] in the particular case of charity [...] there are various clever private ways of helping to get around (free riders), of which the one that I happen to be familiar with is the idea of connecting a particular donor to a particular recipient, of saying, 'There is a starving child in Lebanon. You can be this child's sponsor.' And once that situation is set up, if you don't feed her she goes hungry. And there is not the questions of, 'If I don't somebody else will.' Someone else is responsible for a different starving child. So that in general, I think you ought to expect that people trying to solve public good problem will provide imperfect but existing solutions.

With this sort of innovation and product differentiation, eleemosynary organizations can increase the cost of free riding by excluding free-rider wannabes from enjoying a portion of the benefits associated with charitable action.

CONCLUSION

The science of economics—as expressed by the subjectivist method of the Austrian school—explains the logic of charitable action.

When studying social interactions[69] it is occasionally instructive to employ a model of interdependent personal welfare; a model which assumes people are affected by changes in other people's welfare. Such models imply it is rational for an actor to attempt to promote changes in the welfare of others in such a manner as to improve his own personal utility.[70]

There is, however, a dilemma all such models face. We know of no scientific method to precisely and objectively interpret the subjective utility/welfare of other people. And all theories of charitable action which employ the assumption of altruism—a special case of the interdependent personal welfare model—either make no mention of this dilemma, assume it away or simply deny its relevancy.[71]

Bohm-Bawerk's ideal type construct of charitable action (which assumes altruism) also suffers from this. However, our interpretation of Bohm-Bawerk tackles this problem head on by employing what Mises referred to as the thymological method and moving beyond pure praxeology.

Indeed, by applying the *specific historical understanding* (verstehen) to the interpretation of a potential gift recipient's welfare, we have an important, although highly imperfect, method of compensating for the problem of interpersonal comparison of subjective value. Verstehen is really inference by analogy; the charitable actor imagines himself in the shoes of the potential recipient—he uses his own imagined welfare under those conditions as a proxy (or analogy) for the recipient's welfare.

Such empathetic understanding is imperfect. And, when we use it to instruct our actions, we risk failing to achieve our desired goal. Such uncertainty and consequential risk implies a division of labor and specialization within the market for charitable action; it predicts the emergence of organized charitable action.

An individual who excels at the specific historical understanding—as it relates to charitable action—may emerge as a charity entrepreneur;[72] if he is skilled at satisfying his own charitable sensibilities and skilled at seeking out potential contributors—who share his sensibilities—then he may well emerge as a specialized fund raiser under the auspices of an eleemosynary organization dedicated to those same charitable sensibilities.[73]

Some economists have argued that charitable action is a public good and subject to the free rider problem. They conclude that the market for charitable action will, thus, fail to produce the socially optimal quantity of charity. Government, therefore, is required to impose its coercive power to tax all non-contributors so as to internalize the altruistic external economy and, thus, bring the quantity of charity up to its socially optimal level.

The methodological subjectivism of the Austrian school, however, cuts through this foggy miasma from the swap of public goods theory. The concept of an altruistic externality is entirely inconsistent with economics as a value free science. It is a purely normative concept constructed from a specific point of view, i.e., altruism is the proper and only motive for charity. As such, we cannot accept its conclusions—and the policy prescriptions of its protagonists—as scientifically valid.

Even if such were not the case and the normative bias of the altruistic externality could be overlooked, there remains a problem—there is no objective definition of the content of altruism. The charity of one person cannot be presupposed to satisfy the altruistic needs of someone else. There simply can be no such thing as a universal altruistic externality; people may disagree vehemently as to which acts of charity are, according to their unique preference, appropriately altruistic.

Moreover, even if all the above objections to the public goods theory of charity were somehow countered, the facts remain that altruism is decidedly NOT the only motive for charitable action.

The public goods theory assumes that: 1) The cost of doing charity is fixed and can't be lowered, and 2) There is no cost to free riding. Austrian theory, however, shows that the ego, social pressures, personal values, and institutional factors all work together to either raise the cost of free riding or lower the cost of doing charity to the point where: NPWIDC > NPWIFER.[74, 75]

NOTES

1 A question sometimes raised by economists is: "why is charity even relevant to the study of any market-based economy?" The most obvious reason is that charity accounts for an enormous amount of personal and corporate spending. For example, In the United States, according to the National Philanthropic Trust, in 2019 total voluntary charitable donations were estimated to be at least $449 billion. See National Philanthropic Trust: https://www.nptrust.org/philanthropic-resources/charitable-giving-statistics/

- Americans gave $449.64 billion in 2019. This reflects a 5.1% increase from 2018.
- Corporate giving in 2019 increased to $21.09 billion—a 13.4% increase from 2018.
- Foundation giving in 2019 increased to $75.69 billion—a 2.5% increase from 2018.
- In 2019, the largest source of charitable giving came from individuals at $309.66 billion, or 69% of total giving. In four of the last five years, charitable giving by individuals has grown. Other sources of charitable giving were giving by foundations ($75.69 billion/17% of the total share of American giving), bequests ($43.21 billion/10%), and corporations ($21.09 billion/5%).
- In 2019, the majority of charitable dollars went to religion (29%), education (14%), human services (12%), grantmaking foundations (12%), and health (9%).1 These percentages and top funding areas stayed the same from 2018.

2 We can interchange the terms *perceive as most urgent* and *value most highly.*

3 All of human action is beneficial to the partaker ex ante; that is, at the moment of time it is engaged in, the actor believes his economic welfare is thereby increased. If A gives money to B at time t1, all we can say from a praxeological point of view is that at that moment he believes this to be the case. Yes, he expects that this will also be true at time t2, in the future, but this can only be true ex post, not ex ante.

4 This definition applies to all charitable action, regardless of the underlying motive, i.e., we do not have to assume altruism for it to hold.

5 Other Austrian economists who have made important contributions to this field include Aligica 2015; Cai et. al., 2022; Chamlee-Wright and Myers 2008; Haeffele and Storr 2019; Lavoie and Storr 2011; Prychitko and Boettke 2004; Storr 2010; Sutter and Smith 2017; Watson 2015. Also see Conversations (2004); Garnett, Lewis and Ealy (2012).

6 Selgin (1988, pp. 23-24) writes: "Praxeologic theories, as understood by Mises, are independent of the particular psychological makeup of individuals. Praxeology does not address the *content* of individual preferences or the particular motives that give rise to those preferences. It is concerned with the pure *logic* of choice. Concrete individual ends and values have historical but not theoretical significance; that is, they are relevant to all applications of pure theory to particular, historical circumstances, but enter only as auxiliary assumptions in constructing theory itself. Individual ends and calculations undergo continuous inexplicable change and cannot be subject to anything like 'exact laws.'"

7 All the other motives for charitable action notwithstanding, except where otherwise noted (at least for the first part of this paper) we too have chosen to follow this ideal type of charitable action by *assuming* that a gift giver's charitable behavior is motivated by altruism. Here we echo Professor Hayek's (1960, pp.78-79) sentiments.

8 For more on the Misesian conception and use of "Ideal Types" as opposed to Max Weber's utilization, see Mises (1966, pp. 59-62, 251-255), (1976, pp. 75-91), (1978a, pp. 122); Selgin (1988, pp. 23-28). Also see, Lachmann (1971).

9 For example, it is praxeologically invalid, i.e., has no logical certainty in economic theory, for me to say that "I value the book, *War and Peace,* and more than you do." Even if you always choose some other book over *War and Peace,* and I always chose *War and Peace* over all other books, all I can say, with logical certainty, is that I prefer *War and Peace* over other books whereas you prefer other books over *War and Peace.* That is, ordinal utility is coherent, cardinal utility is not, and interpersonal comparisons of utility involve the latter in a particularly invalid manner. A forceful adumbration of this rule is offered by Rothbard (1977); also see Robbins (1938).

10 As with all his actions, the charitable person is concerned with the marginal utility of the scarce means or resources he controls. That is, he is concerned with applying each marginal unit of his scarce means to the satisfaction of the most urgent want, out of all his wants, which are yet unsatisfied and could be satisfied with the avail-

able means. And this certainly includes the urgency that the giver places on the wants of others as he perceives them.

11 For a particularly erudite, but stern, admonition over not recognizing, and acknowledging this boundary, see Block (2012).

12 For Mises on the Thymological Method and the *specific historical understanding* see: Mises (1966, pp. 49-48), (1976, pp. 130-145), (1978b, pp. 46-51) and (1985, pp. 264-284); also see Long 2008.

13 For a good examination of Dilthey's conception of *Verstehen*, see Ermarth (1981, pp. 241-321). For those exposed only to the fallacious but popular concept that *Verstehen* is just a fancy name for intuition and therefore only relevant to pop phycology, one of Ermarth's (1981, p. 241) opening statements is instructive: "In the vast literature on *Verstehen* the 'intuitive' and 'divinatory' aspects have been stressed to the exclusion of Dilthey's equally strong emphasis upon methodical rigor, empirical evidence, and general validity. As a result, the lopsided view has arisen that verstehen is not a method at all but rather some neo-idealist gnosis best left to telepathists and clairvoyants." Related is social ontology. On this see Epstein 2018; Baker 2019.

14 Nozick (1981, p. 636) writes of this: "...since we who wish to understand these actions (whether as historians, social scientists, or participants in the situation) also are human subjects, this gives us a special mode of access, a way of coming to know what that other person is doing, namely the route of *verstehen*—empathic understanding."

15 In saying this we assume it can be done costlessly. How many of us have decided to make a donation by e mail or online, only to be deterred by being required to fill out endless forms in order to so so?

16 Mises called this kind of knowledge *conception*. "Conception," wrote Mises, "seeks to grasp the meaning of action through discursive reasoning. Understanding seeks the meaning of action in empathic intuition of a whole [...] What has been arrived at by means of conception must be acknowledged as established, or else must be shown to be either unproved or confuted. […] where understanding enter, the realm of subjectivity begins. We are unable to impart to others any certain knowledge of what is intuitively foreknown and apprehended, of what has not been hardened in the forge of conceptual thought…Conception is reasoning; understanding is beholding" (1976, pp. 133-134). For a superb examination of the boundary where praxeology leaves off and the *specific historical understanding (Verstehen)* begins see Selgin (1988).

17 The literal translation of *das spezifische Verstehen der Geisteswissenschaften* is: "the specific understanding of the humanities."

18 Stated another way: we *estimate* the wellbeing of a gift recipient by means of *proxy*. That is, we use as a proxy for the recipient's state of wellbeing that state of wellbeing we believe would obtain if we were the recipient.

19 Even though we may highly value the opera, when we think of ourselves in the shoes of the bone-cold shivering and pitiful homeless person, the value of the blanket may rise substantially and far outweigh the value of the opera ticket. Obviously, this assumes the opera ticket has no alternative use, i.e., it can't be sold or returned for a refund by the homeless person.

20 He goes on to say: "The two component links in the chain of verstehen, each necessary, are that he acts as I would, and that I would as I (on the basis of imaginative projection) think I would" (1981, p. 638).

21 We call these people empathic.

22 In fact, even the misanthrope cannot exclude the welfare of other humans from his personal set of subjective preference or wants. In this case, however, because he is a hater of mankind his welfare is inversely related to the welfare of others, i.e., the worse off are others that happier is he.

23 To this formal statement there are two potential exceptions. The first is Robinson Crusoe before meeting up with Friday. Although in this case Robinson may still hold the wellbeing of others as a positive element in his preference ordering, but, due to his circumstances he is unable to act on this preference; this makes it an irrelevant issue. (This is much like the child that dreams of flying like a bird; the preference is real enough but because it is unobtainable given his means it is irrelevant).

The second exception is the psychopath who is uninterested in the wellbeing of others, i.e., has no conscience. (This contrasts with the sociopath or misanthrope who holds the wellbeing of others as either an irrelevant or negative element in his preference ordering, i.e., something to be ignored, as irrelevant to his subjective preferences, or disrupted. See text following footnote 21).

24 More formally, the entrepreneur must compare the marginal utility he believes consumers will attach to one project vis-a-vis the marginal utility he believes they will attach to another project which required the same resources.

25 That is, under the system of laissez faire capitalism. If there are subsidies, bailouts, protections for favored firms, then all bets are off on this matter.

26 This is by no means a perfect analogy. In commercial entrepreneurship there is, of course, more information regarding consumer satisfaction via objective profit and loss, i.e., accounting of consumer purchases vis a vis firm expenditure, i.e., conceptual knowledge (as opposed to understanding) is relatively more abundant.

However, even here there is an analogy; as with commercial firms, eleemosynary organizations have a bottom line. The expenditures of a charity cannot long exceed its revenue without going bankrupt. That is, the charity entrepreneur can only continue in his enterprise so long as he satisfies the preferences of his donors. See Hughes (1990, p. 46).

27 Nozick (1981, pp. 636-637) states: "some of us evince a good track record as empathic understanders and so...can be a reliable mode of reaching conclusions about the actions of another. (Whereas the track record of some others may lead to the reverse judgement, and also to a diminishing regard for...their intuitions.)"

28 Also see Douglas (1983), especially chapter 7.

29 See on this: Barnett and Block 2007, 2009; Block 1983, 2000, 2003; Cowen 1988; De Jasay 1989; Fegley et al, 2021; Holcombe 1997; Hoppe 1989; Hummel 1990; Osterfeld 1989; Pasour 1981; Radnitzky 1989; Rothbard 1997; Schmidtz 1991; Sechrest 2003, 2004a, 2004b, 2007; Tinsley 1999. Rothbard's (1997, p. 178) reductio absurdum of public goods is as follows: "A and B often benefit, it is held, if they can force C into doing something...[A]ny argument proclaiming the right and goodness of, say, three neighbors, who yearn to form a string quartet, forcing a fourth neighbor at bayonet point to learn and play the viola, is hardly deserving of sober comment."

30 This would include the classic pure public goods which supposedly fail on the grounds of both rivalrousness and excludability such as the lighthouse and national defense.

31 A second line of criticism on the part of those who espouse the "public good" criticism of free markets is that if, and to the extent, that entrepreneurs have indeed brought these goods and services to consumers, they have not done so in the proper proportions. This fails since the critics are unable to demonstrate exactly what would constitute these "proper proportions." See text following footnote 47 for more on this.

32 This article is also abridged in—and the model central to—Susan Rose-Ackerman, ed. (1986). The theory also plays a key role in Walter W. Powell, ed. (1987).

33 In the view of Hutt (1940), this is part and parcel of "consumer sovereignty." But Rothbard (2004) correctly criticized this claim on the ground that under free enterprise, producers, too, are "sovereign." Thus, a more accurate way of putting the matter is that in the free society there is sovereignty for all market participants, hence Rothbard's "individual sovereignty." Also see Murphy 2003 on this issue.

34 In general, the donor/consumer relies on the expertise of the charity entrepreneur who runs the organization. That is, the charity entrepreneur is able to invest more time and effort in understanding the preferences qua needs of recipients and is, thus, better able to make successful choices.

35 Mises (1978b, p. 11) states this as follows: "While all other things, animate and inanimate, behave according to regular patterns, man alone seems to enjoy—within definite limits—a modicum of freedom. Man mediates about the conditions of his own self and his environment, devises states of affairs that, as he believes, would suit him better that the existing states, and aims by purposive conduct at the substitution of a more desired state for a less desired that prevail if he were not to interfere."

36 Some praxeologists will object to this use of the altruistic ideal type. For our defense, we rely on the precedent of Rothbard.

37 The Theory of Interdependent Personal Welfare in charity was popularized in the 1970s by Schwartz (1970) and Becker (1974).

38 It would be interesting to explore a theory of "Random Violence" based on this use of the Theory of Interdependent Personal Welfare.

39 It is crucial to understand that employing the Theory of Interdependent Utility (TIU) to explain altruistically motivated charity, does not imply that altruism is the only motive for charitable action. The TUI simply sheds light on one motive. Indeed, Schwartz (1970, p. 1268) is perfectly clear on this point: "...we recognize fully that all gifts

need not be philanthropic in the pure sense of the definition. For instance, contributions made to fund drives might express a personal desire for communal recognition and applause, and a dime given to a beggar might be the price of freedom from the nuisance he can represent. Such motives enable one to regard much giving as a clearly rational, although perhaps subtle, form of purchase."

40 This is to the exception of "tied" gifts which are clearly bilateral exchanges or common market exchanges. An example is the religious charity that will give a homeless person a meal and a place to sleep on the condition that he attend a church service in the morning.

Thus, we must distinguish between three basic forms of giving: "Tied" gifts which are really only common market transaction, i.e., "we will give you this in exchange for you doing that"; gifts-in-kind which could be called paternalistic market transaction, i.e., where the gifts is not tied to some quid pro quo behavior but may be intended to elicit a particular kind of voluntary behavior; and direct grants, which are pure unilateral market exchanges.

In his review of existing work regarding the motives for familial bequests (as opposed to anonymous charity), Cox (1987) has divided the literature into "three separate strands of thought." The first, he defines "altruistic" where the benefactor is assumed to be motivated by love and or concern for the wellbeing of the beneficiary; this we have called "pure unilateral market transaction." In the second, the benefactor is assumed to have "agnostic" motives. He is motivated by bequest conventions, i.e., does the eldest son inherit everything or should all siblings share equally, etc. The "agnostic view" of bequest fits well into our paternalistic market transaction, i.e., gifts in kind. Finally, in the third strand of thought, the benefactor's motives are "nonaltruistic" where "transfers represent payments made in exchange for services provided by family members." This is obviously consistent with our "tied" gifts as common bilateral market transactions.

41 On the bases of demonstrated preference, assuming the gift was accepted, our charity would, by definition, have to benefit the recipient ex ante otherwise he would not accept it. The fact that we can imagine cases where due to mutual ignorance (lack of understanding on the part of the benefactor and lack of conception on the part of the beneficiary) the result of the gift-after the fact—is precisely the opposite of what was intended is irrelevant to the pure logic of choice and the theory charitable action.

42 Indeed, even in the case where our gift is motivated exclusively by altruism and, we derive our benefit solely from the satisfaction of understanding that the recipient has been helped, we cannot conclude that the recipient purposely acted so as to provide us such a benefit.

43 Among those who dogmatically hold onto the public goods argument for so-called market failure include Weisbrod (1977, 1988) and Douglas (1983). They maintain that due to the market's presumed failure to provided socially optimal quantities of public goods state intervention to ensure their provision through compulsory taxation is justified. They then go on to argue that the government also fails to provide the "socially optimal" quantity of public goods leaving some people undersupplied. This, they argue, justifies/explains the emergence of a "Third Sector"? Surely if their thesis is correct then private eleemosynary institutions are simply a product of the market's remarkable success in finding solutions rather than its failure. On this see Furton and Martin 2018.

44 This is not to say that it would be correct under these conditions, only that these conditions are necessary for it to be applicable. In point of fact the theory is erroneous on other grounds, See Block (1993), Brownstein (1980), Cowen (1988), Hummel (1990) and Hoppe (1993).

45 See Arrow (1963, 1974, 1981); Collard (1978, Ch.10); Hochman and Rodgers (1969, 1973). One of the most pessimistic devotes of the public goods theory is Olson (1971, p. 48) who states: "For these reasons, the larger the group the farther it will fall short of providing an optimal supply of a collective good, and very large groups normally will not, in the absence of coercion or separate, outside incentives, provide themselves with even minimal amounts of a collective good." Also see Olson (1982, pp. 19-20).

46 Of course, this would require a significant vernacular revolution; *charity* ceases to be *charity* once the voluntary element is removed. The government, by taxing non-charitable people so as to institute welfare programs does not change the fact that the non-charitable "free-riders" are non-charitable. Such programs cannot be interpreted as increasing the supply of either charity or altruism!

47 Friedman (1962, pp. 190-191) writes: "It can be argued that private charity is insufficient because the benefits from it accrue to people other than those who make the gifts… We might all of us be willing to contribute to the re-

lief of poverty, provided everyone else did. We might not be willing to contribute the same amount without such assurance."

Buchanan and Flowers (1987, p. 317): "The collective aspect of these payments stem from the external effects on citizens as a group arising from the relief of poverty and misery in the whole community or society. The relief of poverty is genuine 'social' or 'collective' objective that can be met, in part at least, through the transfer process. Through the fiscal process, individuals can transfer funds impersonally to individuals as eligible recipients."

48 It is imperative not to conflate charitable action with charitable organization. The two, while of course not totally disparate, must not be confused with one another. The former pertains to individual human action, the latter to cooperative interactions on the part of several people.

49 Moreover, for the public goods argument to hold it is not sufficient to define altruism as simply *concern for the welfare of others;* because we have no objective method of knowing the welfare of others, we must subjectively interpret it by means of *Verstehen*. Hence, under the current definition of altruism, the charitable act that altruist believes will improve a recipient's welfare may not be the same act that another altruist believes will improve the recipient's welfare. For the public goods argument to hold then, the definition of altruism must encompass specific and definite acts, i.e., its content must be universal. This, however, is not the case.

50 For this to hold, the person need not be a misanthrope, i.e., hater of humanity. He may well be a lover of humanity but dedicated to the Darwinian survival of the species ethic. For the case against charity to the poor on social Darwinian grounds see Block (1976, pp. 137-143). The other author of the present paper has made the case against the social ant-charity Darwinists in the forthcoming Festschrift in honor of Professor Block's 82nd birthday.

51 As scientific economists, however, we cannot rigorously deduce either conclusion; we have no objective or scientific means of observing or measuring such externalities so we cannot say with scientific certainty that they exist. By definition, an externality is nothing more than the subjective preferences or feeling of a third party regarding the independent actions (or interactions) of the first and second parties. The externality is not an object of this third party's actions and thus we cannot observe him display a preference for or against it, i.e., we cannot observe him make a valuation in its regard. This means we cannot say for sure that he is a free rider (in the case of an external economy) or a utility loser (in the case of an external diseconomy). Even if we question him and he tells us that the interactions of Mr. Kennedy (1950) and Mr. Keckskemeti (1952)—who both advocate the questionnaire approach—has or has not affected him in some (subjective) manner--how we are to know he is telling the truth? See Rothbard (1977, pp. 5-7, 26-27).

52 See Block (1975) and Rothbard (1973), (1976).

53 Even if such an altruistic externality exists, we have no means of determining who enjoys it and who does not since we have no way of determining who may or may not be an altruist. Nevertheless, the public goods theory implies that *everyone* is an altruist by presupposing the altruistic externality is an external economy, which, by definition, benefits everyone. Thus, any non-contributor is assumed to derive satisfaction from the altruistic externality and be a free rider. In reality, however, a tax imposed on all non-contributors penalized not just the so-called free riders but also those who genuinely find no value in altruism.

54 But, again, what of the misanthrope? May he or she not enjoy a welfare boost by observing the plight of the poor? i.e., for him "pitiful poor" externality is positive.

55 See Pareto (1971) and especially Robbins (1938).

56 In reference to the imposition of normative ethics into welfare economies via language, Mises (1966, p. 834) writes: "They intentionally employ a term the general accepted connotation of which precludes any opposition against the realization of welfare, the welfare propagandists want to triumph by means of cheap logical trick. They want to render their arguments safe against criticism by attributing to them appellation which is cherished by everybody. Their terminology already implies that all opponents are ill-intentioned scoundrels eager to foster their selfish interests to the prejudice of the majority of good people."

57 In this section we have been greatly influenced by the original insights of Thomas Ireland (1969). The remainder of this paper is drawn from Professor Ireland's doctoral dissertation. A more complete version was published in book form in 1970. See Ireland and Johnson (1970). As well, an anglicized version for a British audience was included in the IEA Readings 12 (1973).

58 NPWIDC is defined as the benefit, or intensity of satisfaction, from *understanding* the recipient's welfare is improved less the cost of doing charity.

59 NPWIFR is defined as the benefit, or intensity of satisfaction, from *understanding* the recipient's welfare is improved less the cost of free riding.

60 The reasoning here goes as follows; the benefit, or intensity of satisfaction, an altruist derives from *understanding* a recipient's welfare is improved is the same whether or not he does the charitable act himself or free riders on the altruistic externality generated by other altruists, (i.e., the theory assumes the benefit an altruist gets from the "altruistic externality" is a perfect substitute for the benefit he obtains from doing charity himself). Thus, the only elements relevant to the altruist/free rider's calculus are the marginal cost of doing charity (MCch) and the marginal cost of free riding (MCfr). Because free riding is free then it is always the case that MCch > MCfr; thus, free riding is the rational choice.

61 Perhaps the most notable example of Nash Conjectures is in the standard neo-classical theory of the firm which employs the conceptual tool of "perfect competition" which in turn assumes that the actions of one single firm (increasing its supply or reducing its supply) can have no effect on the market price.

62 If we hold anti-Nash conjectures, we believe that if we take a free ride then others will likewise take a free ride. We do not want others to take a free ride since that will mean less charity for us to enjoy vicariously. Less charity for us to enjoy vicariously is a cost we believe we will suffer if we choose to take a free ride.

63 While Anti-Nash conjectures are especially relevant egoistic motives not to free ride in small groups, they may not be as relevant to vary large groups. This may explain why in small—or, alternatively, large-but-intimate—charities the issue of free-riding behavior seldom comes up.

64 See notes 50 & 51.

65 While here these authors refer specifically to volunteer workers, their comments apply equally to more conventional forms of charity.

66 Clearly, charity ala the Political Motive requires no assumption of altruism.

67 This helps to explain why, for example, North Americans—and to a lesser degree Europeans—are so moved to contribute charity aid when the odious and horrific plight of starving African and Asian children is brought to their attention.

68 Our interpretation of the charity entrepreneur and the role of the donations funded charity organization dovetails with Kirzner's (1973) "Austrian" theory of entrepreneurship.

69 This can include such interactions as divergent as friendship and altruism to war and envy.

70 As far as the interdependent personal welfare model is concerned, the direction of this relationship is irrelevant. Indeed, it applies equally well to altruists and misanthropes.

71 See, for example: Becker (1974); Douglas (1983); Hochman and Rodgers (1969, 1973); Schwartz (1970); Weisbrod (1977, 1988).

72 Alternatively, "eleemosynary entrepreneur."

73 The obvious pay off to the charity entrepreneur—beyond any financial remuneration for his services—is that he can ensure his favorite charitable activity will continue and expand far beyond his own contributory limitations.

74 That is, my NPWIDC ("my benefit from knowing the beneficiary's welfare is improved" less "my cost of doing charity") is greater than my NPWIFR ("my benefit from knowing the beneficiary's welfare is improved" less "my cost of free riding").

75 We, the authors, have greatly benefited from the incisive material provided by two referees of this journal and the splendid "fine-tuning" of the journal's managing editor Leslie Marsh. We are very grateful to each of them. The usual proviso of course applies: we are solely responsible for any errors of commission or omission that still remain in this paper.

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