MARKET ECONOMY SELF-TESTABILITY AND THE STATAL INTERVENTION

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Principled, a market economy is understood as that institutional structure of a society which allows the self-regulation of the economic system. To be observed that the freedom of the market is not sufficient to either ensure or guaranty such a self-regulation. Despite the fundamentalists of the libertarianism, there are many (not accidentally, but necessarily) cases when the free market fails to self-regulate. I want insist on the idea that such a structural incapacity is not interpreted from a moral point of view, but even from an objective perspective (in such a perspective, the so called market failures are well known). I do not discuss here the issue of the free market failures, but a larger issue: could we really speak about an area of social (or economic) activity where the state is „allowed” to normatively intervene and, correlatively, about a „sacred” area of the social (or economic) activity where the state is „not allowed” to normatively intervene? This question can be answered in two fundamental ways: 1) based on the efficiency criterion (as the libertarianism claims), which will be replaced below by the entropic neutrality criterion, or 2) based on a logical criterion. Let’s briefly examine the both cases.

(1) <u>The entropic neutrality criterion</u>

Firstly, I want to remember the efficiency criterion of the state interventions. This interventions on the free market functioning is generally linked to the so-called subsidiarity principle. The subsidiarity principle is a maximizing one: it requires that the economic decision be taken (as either spatial location or institutional location) where its effectiveness is maximized. In our discussion the efficiency criterion must be understood, by the contrary, as a minimizing principle: it requires that the economic decision be taken (as either spatial location or institutional location) where its perturbation impact on the market freedom is minimized. In such a context, probably another term should be found to express the concept on minimizing the impact of the decision on the market freedom – I’d propose here the term *entropic neutrality criterion (ENC)* to replace the term of efficiency criterion. So, any economic decision which is expected to impact on the free market should be considered as allowed (or acceptable) if it verifies the ENC. How to measure if the criterion is verified, and how to measure the extent of such a verifying, I’ll discuss below, around the second criterion. It seems total clear that such a criterion is applicable not only to the state decision only, but also to the free market (the free market could go itself towards reducing its own freedom – for example, by the monopolisation process of the supply, or of the demand, or of the both).

(2) <u>The logical criterion</u>

The logical criterion invites us to discuss something what could be named the testability criterion of the free market preserving. In fact, the logical criterion of the decisions on the free market is the necessary pair of the entropic neutrality criterion. This means the logical criterion should „say” us if the decision on the free market really verifies the entropic neutrality criterion. The content of the logical criterion, without calling it as such, was already announced for a long time by some economists (or, rather by some social philosophers), like von Mises, for instance (see its monumental work *Human Action. A Treatise on Economics*). In addition, the logical criterion can easily be connected with the Popper’s proposal for the scientific testability, within the kind of the philosophy of science called critical rationalism. So, the logical criterion requires that the external intervention (external related to the free marked), for instance, the statal intervention on the free market, be exclusively limited on the evaluated free market outcome (output and spillovers) which are non-testable by the free market itself. From a philosophical point of view, such a description of the logical criterion connects us to the idea of sustainability, which requires external factors/principles to ensure the self-replication of a system/process. The conclusion is that the government shouldn't intervene on the free market outcomes which can be tested (or which are testable in principle) by the free market itself. In other words, it is about those free market outcomes which are endowed with their own negative feed-backs. To be mentioned that these negative feed-backs must verify the following properties in order to be consistent with the logical criterion: a) they must be permanent, i.e., must be structural for the free market; b) their action (in fact, their reaction), must be not delayed related to the outcome moment in case.

Let's consider two examples regarding application of the two criteria aimed at to filter the legitimate from the illegitimate statal interventions on the free market.

(I) <u>Establishing the price of a certain good or service on the free market</u>

The price is generated by the play between the demand and supply for a given good or service. If the price is too high, the demand will decrease and, as a result, the price decreases correspondingly. The analogous is done for the opposite case, when the price is too low. So, this result of the free market – i.e., establishing the price at which the market is clearing – is a result (or outcome) which can be tested by the free market itself. Consequently, if the state will introduce a norm here, by administratively establishing the price in case, the market will be perturbed in its own mechanism, either by generating a shortage – if the administrative price is under the clearing market price – or by generating a surplus – if the administrative price is over the clearing market price. A common case is here the establishing of the minimal nominal gross wage on the economy, warranted in payment, when the administrative unemployment will be generated. The explanation for such an effect is the fact that the statal intervention do not allow the market to self-regulate through its specific negative feed-backs.

(II) <u>Blocking the monopolization process inside the free market</u>

In order to undermine the consumer sovereignty (the strongest known, so far, regulator of the free market), the suppliers could join and establish a minimal price for a good or service. To be observed that such phenomenon is not endowed with its own negative feed-backs. By the contrary, it has a strong positive feed-back which leads it towards an escalade of the process in case. So, in such a situation the statal norming intervention is desirable and requested. Such an intervention not disturbs the free market mechanism, but just allow the market to come back in its self-regulating framework. The essential learning from this case is that the state is legitimate to intervene on the free market when and only when the free market lacks the specific negative feed-backs, as they were described above by the two features (structural nature, and non-delaying behaviour, respectively). Mutatis mutandis, the same could be said about the monopsonization process inside the free market (i.e., the replacing of the consumer sovereignty with the consumer dictatorship).

The final conclusion is that the discourse about the legitimate or the illegitimate of the statal intervention on the free market is not at all a moral issue, but a logical one. Where and when the free market has its own testing capability (i.e., it is endowed with specific negative feed-backs) the state must not intervene. Where and when the free market has not its own testing capability, the state is required to intervene. Of course, the political game easily and frequently infringes this condition, even in the case where the benefits are considerably and evidently overfulfilled by the correspondingly costs. This cases could make the object of another type of analysis. Here I was interested by the economic and logical perspectives only.