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Social Welfare: A Synthetic Analysis from the Perspective of the Main Schools of Economic Thought

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Abstract. The analysis of the meaning of the social welfare is a topic of great interest for researchers, as well as for policy makers. While some researchers or economists believe that social welfare is limited to the standard of living of the society, others describe it as a material and spiritual welfare of the society and make a distinction between the social welfare of those in need of a special attention from society and general welfare of the whole society. In order to understand the true meaning of the concept of social welfare, this research focuses on an incursion into the historical past of the economic thought. The aim of the present study is to analyse the social welfare or other terms related to welfare from the perspective of the main schools of economic thought. The research reveals that the representatives of the largest schools of economic thought have not overlooked terms such as prosperity, happiness, satisfaction, usefulness, wealth, building a solid foundation to what we know today as social welfare.

Keywords. social welfare, wealth, welfare economy, welfare state, human action

1. Introduction

In a restricted sense, the concept of social welfare is limited to the standard of living of the society, outlined by the welfare or social protection services provided by the state. For example, the economist Vaughn Davis Bornet considers the social welfare as equivalent to the term social protection, giving the following definition: *„Social welfare, or rather, social protection, represents the special services offered and the material assistance provided by the whole society or only by one part of that to a person considered to be in need.”* (Bornet, 1960).

On the other hand, the researchers De Grazia and Gurr (1961) present the concept of social welfare in a broader form: they describe it as *„a material and spiritual welfare of the society”* and make a distinction between the social welfare of *„those in need of a special attention from society”*, and general welfare *„of the whole society”*. They recognize that *„social welfare is closely linked to other types of welfare and that most institutions of the society offer different types of welfare”*. As a result, both public and private agencies are involved in social welfare activities. Thus, De Grazia and Gurr make the distinction between public social welfare (provided by the public sector / state) and private social welfare (offered by the private sector).

Professor Walter A. Friedländer defines social welfare as *„an organized system of social services and institutions, designed to help individuals and groups to reach satisfactory standards of life and health, as well as personal and social relationships that will facilitate them to develop to their full potential and in harmony with the needs of their families and the community”* (Friedlander, 1961). As can be seen, the social welfare is somewhere at the interference between state action (organized system) and human action (personal and social relations).

Social welfare in the broad sense is not limited to the notion of standard of living, but rather takes into account the quality of life, which includes factors regarding the quality of the environment (air, soil, water), the level of crime, the degree of drug abuse, the availability of basic social services, as well as religious and spiritual aspects of social life. In this regard, the measurement of social welfare depends to a very large extent on the indicator or indicators that are taken into account: Sustainable or green GDP, Genuine Savings, Human Development Index etc. (Percic and Apostoaie, 2016).

Italian researchers Lorenzo Giovanni Bellù and Paolo Liberati explain social welfare rather in financial-monetary terms: social welfare can be reflected by the average income per capita (Bellù and Liberati, 2006). From their point of view, the distribution of the total income from the economy can generate two contradictory situations: on the one hand, the equitable distribution of the total income among the population (as it should be) generates social welfare, and, on the other, the inequitable distribution of this indicator (as it is in reality) leads to social inequalities. In conclusion, it can be argued that Bellù and Liberati do not see social welfare in a capitalist society (a society based on competition and distribution of value according to merits). According to these researchers, social welfare is rather a state of socialist / communist society.

It is worth to mention that welfare is closely linked to the notion of *project* or *project management*, because, overall, welfare represents the result of an implemented project whether we are talking about the project as a country / state (Keman, 2017) or as specific activities implemented within an institution. For example, the Atlas Project improved the welfare of the children in foster care from USA (Tullberg et.al., 2017), while the 36 million houses project implemented during the 2011-2015 in China improved the welfare of its inhabitants (Jiang and Mai, 2015).

In order to understand the true meaning of the concept of social welfare, research focuses on an incursion into the historical past of economic thought. The largest schools of economic thought have not overlooked notions such as *happiness*, *satisfaction*, *usefulness*, *wealth*, building a brick at the base of what we today call *social welfare*.

2. Social welfare in the vision of the classical liberalism

2.1. Prosperity in the vision of the Physiocrats

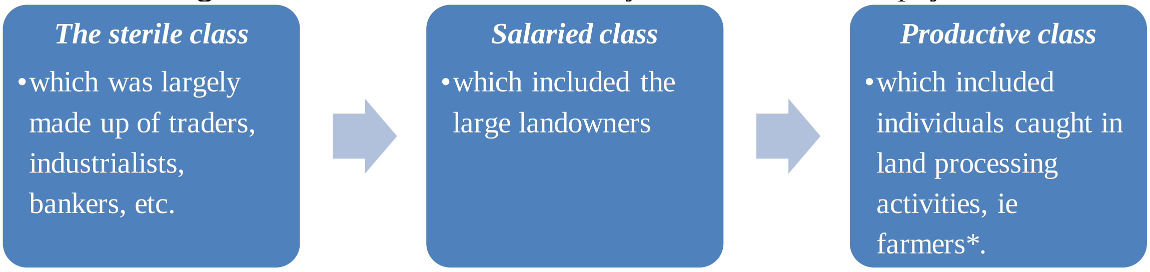
Based on the meaning of the term physiocrats (from Greek *„phusis”* - nature and *„kratos”* - power), this group of economists advocates for the power of nature in the economy. The physiocrats were the first to introduce the *laws of nature* in explaining and describing the economic life, emphasizing that even human society evolves according to well-defined principles, fitting perfectly in the natural order of things on earth.

The physiocrats, through their theoretical and practical steps, have come to the conclusion that the earth, which is the supreme gift from God, is the only productive element that can generate *prosperity*. Although the term social welfare will appear later, the physiocratic scholars used the term *prosperity* to describe the welfare of the society of those times, which was, in their view, limited to the net product generated by the proper processing of the land. This net product, which represents the difference between the accumulated income from the processing of the land (wealth) and the expenses related to this effort, is the equivalent of the present national income. Therefore, the physiocrats perceive social welfare or prosperity through the value of the accumulated income from the economy. Of reference in this case are the words of

Pierre Samuel Dupont de Nemours, who said that *„prosperity must be associated with the maximum possible level of the net product"* (Albertini and Salem, 1988).

Another important notion introduced by the physiocrats, later taken over by economists from all over the world and relevant for explaining social welfare, is the *economic circuit*. The economic circuit shows in a rudimentary form the distribution of the net product created by the society, explaining how the society's wealth ensures the welfare of the whole social community. Starting from the idea that the driving force in ensuring the flow of the net product is the individual, the physiocrats describe the society and its structural-functional unit, dividing it into three social classes (see Figure 1).

Figure 1 The structure of the society in the vision of the physiocrats



Note: * It was tried to introduce in this class also the workers who benefit from other gifts of nature (for example fishermen or miners), but this did not enjoy unanimous support from the economists of those times
Source: *Elaborated by the autor*

The physiocrats argued that only the productive class was engaged in the creation of prosperity, supporting the economic circuit and the distribution of income within the society. The other classes, as Francois Quesnay claimed, were only involved in the simple production of what they consumed.

Although most of the explanations put forward by the physiocrats seem rudimentary and easy to dismantle, their contribution is titanic to the economic theory in general and to the understanding of the notion of social welfare in particular.

2.2. The welfare of the nation in the vision of the Classical school of economics

The industrial revolution of the late 18th century has shaken the economic theory put forward by the physiocrats. Against the background of these major mutations, classical economists, identified with the French classical school and the British classical school, proposed a sound economic theory, described by complexity, unity and immutability.

One of the postulates of the social welfare put forward by classical scholars comes from the context of those times, when thinkers of the same current were caught in two different camps: the British and the French camps. As the British and the French were in a state of war, the correspondence of the French and British classics surprises their confidence that only peace can develop the human personality and, therefore, guarantee a *better life*.

From the position of staunch supporters of the economic liberalism, the French classics blamed and discouraged the state interventionism in the economic activity, considering that the absence of state power in the economy would lead to a better and prosper life. In their view, government interventions in the fields of socio-economic life, unbalance the system, disturbing the harmony established within the society.

The representative of the French classicism, Jean-Baptiste Say, in the treaty of political economy emphasized the unlimited character of the needs of the society against the scarcity of

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available resources (Say, 1855). If social welfare is nothing more than the satisfaction of society by meeting societal needs, then in visions of the French classic (but it is generally valid, since resources are limited) social welfare will never reach an absolute saturation level. As Say said, only through the abstention, distribution and rational and efficient consumption of the wealth of a nation, starting from the resources that are scarce, limited and used alternatively, one can go towards a relative satisfaction of the unlimited needs of society.

Say also highlighted the importance of the value-utility term. This notion facilitated the justification of the productive character of all the economic branches, and not only of agriculture, as the physiocrats argued. In Say's vision, satisfaction is given by the productive character of an activity of production, while overproduction cannot exist on a free market. The good functioning of the markets and the accompanying competition were the guarantee of producing only those goods that were required on the market to satisfy the existing needs. Although all the economic activities were supported by value-utility, the industry had a special place and was considered the basic branch of the economy, capable of regulating production alone, without reaching overproduction situations.

The British classical school proposed viable solutions for the proper functioning of capitalism in the form of a unique economic theory for those times. Private property along with free initiative were seen as desirable for economic freedom and, therefore, for meeting the needs of society.

In The Wealth of Nations, Adam Smith has iterated three postulates of economics, which are now familiar to all students (Smith, 1992):

(1) The mobile that guides the human being in its activities is the personal / individual interest.

(2) The invisible hand of competition, by cumulating, automatically transforms the personal interest of individuals into common interest and common good.

(3) The best governance policy to increase the wealth of a nation is the one that governs / intervenes the least.

During the construction of the liberal ideology Adam Smith has iterated three basic pillars: the individual, rationality and *pleasure*. He argued that the harmony and balance between the personal interests of individuals and the general interests of society can be ensured by the existing natural order. The natural order is the guarantor of the pleasure, harmony and *welfare of the society*. Individuals do not need state intervention to satisfy their own needs, but they act according to their particular nature, thereby satisfying the requirements of the whole society. In this context, Smith introduces the notion of the *invisible hand* to explain how, through the individual's free action to achieve his own goals, the wealth of society (the wealth of the nation) is created. Smith emphasizes the divine force that guides individual interests and passions toward the general good of society: *"We do not wait to eat the goodwill of the butcher, or the wine salesman, or the baker, because we believe that this is in their own interest. We are not addressing their humanism, but their selfishness, we are not talking about their needs, but their interests."* (Smith, 1992).

Also worth noting is Smith's vision of society. He saw it as an entity whose supreme purpose is to realize material interests (expressed through objectives) and, therefore, to satisfy the societal needs, which will allow to maximize the pleasure felt by the society.

Although state intervention was not encouraged by the classics, Adam Smith explains the role and necessity of its interventions. The state was called upon to solve those problems that could not be overcome by the society guided by the invisible hand: it had to ensure the smooth running of the economy by creating the favorable conditions for healthy competition, but without departing from the laissez faire principle, it had to defend itself in the case of external aggressions against the nation, but also it had to maintain the proper functioning of institutions and public works. By identifying, preventing and solving these problems, the state contributed to increasing the nation's wealth, increasing individual satisfaction and maximizing social welfare.

Adam Smith drew particular attention to increasing the wealth of the nation, outlining two defining elements in the increase of general wealth: labor and capital. *“The annual work of any nation constitutes the fund that always supplies it with all the necessary goods and eases of living”* (Smith, 1992). In Smith's belief, not necessarily labor, as its productivity was one of the prolific factors of increasing general wealth, thus distinguishing between productive and non-productive labor. The British classic argued that non-productive work, specific to the sphere of services (professional categories in education, health, administration etc.), does not create or add anything. The remuneration of the people involved in such work is considered to be expenses directly borne by the wealth obtained by the whole nation. As for the capital, it represented the part of the reserve left after satisfying the individual consumption, which had to be invested, in order to obtain an increased income in the future.

Although David Ricardo fully shares Adam Smith's vision, he will come up with his rigorous details, leaving an unmistakable imprint on economic thinking. In Ricardo's theory of value, he removes some shortcomings identified in Smith's writings (Ricardo, 1821). Unlike his predecessor, Ricardo believes that the main source of the value of the goods is the amount of work required to produce them. Moreover, he argues that not only the work used directly in the production of goods influence their value, but also the work used in the manufacture of the instruments, tools and buildings with which this work is done.

Thomas Robert Malthus is the representative who drew the greatest attention to the influence of the economy on society. This interest appeared against the backdrop of the 18th-19th century demographic explosion in the UK. Thanks to the favorable effects of the Industrial Revolution on the economy in general and on the welfare of society, the British population has grown twice in just two decades. Studying this phenomenon, Malthus advanced the *“population theory”* to describe the evolution of the population on earth. In sketching this theory, he drew attention to three important aspects (Malthus, 1959):

- The population is dependent on the available livelihoods;
- The population is willing to multiply wherever the means of subsistence are increasing;
- In order to stop the growth of the population, large and obvious obstacles are needed.

Returning to a more balanced situation can be done with the help of two distinct levers: material levers (wars, famines, diseases, epidemics) or moral levers (voluntary constraints arising as a result of the material insufficiency of families, diminishing their well-being).

Malthus is pessimistic about the future of humanity, as he sees a major imbalance between the evolution of population and the evolution of livelihoods. According to his theory, the population multiplies in an uncontrolled manner and increases in geometrical proportion, while the livelihoods only in arithmetic progression. Malthusian theory emphasizes the qualitative side of human existence, determined by an optimal level of resources available and used rationally by an acceptable number of individuals. Malthus's theory can be easily contradicted by existing statistics: from 1950 to present the population of the globe has increased more than 2 times, while the production of material goods has increased more than 4 times. However, social welfare is experiencing major global imbalances following the trend mentioned by Malthus: the ratio of the world's prosperous and poor population has steadily declined from 1/20 in the 1960s to over 1/60 today.

Another very important aspect that should be mentioned is that Malthus has always opposed the intervention of the state in social life. He was of the opinion that any assistance that the state provided to the poor people through the distribution of the nation's wealth would only aggravate the existing situation.

John Stuart Mill has made full use of his intellectual erudition to explain how the behavior of the human individuals can be transformed into the specific behavior of individuals guided by the hedonistic principle, namely they seek to maximize satisfaction with minimal efforts. Mill agreed with the existence of natural laws, but realized that they had nothing in common with income distribution (Mill, 2004). The distribution of the wealth of a nation is made on the basis of laws arising from the abstract and logical reasoning or of the existing customs / habits that allow to maximize the satisfaction at individual and community level.

The late classicism was built on the ideas founded and spread by the original classicism, which were assimilated into newer and more advanced conceptions of economic thought. Like most of the representatives of the original classical school, the late classics presented their views on the theory of value.

Alfred Marshall considered that the demand for a good and implicitly its market value depends on the welfare that this good brings to the consumer (utility). Marshal is the economist who first used the term Economics, which expresses individual and social human behavior, which is closely related to the production, distribution and consumption of goods and services, and whose ultimate goal is to achieve the prosperity of the individual and society (Marshall, 1997). Lionel Robbins, taking over the Marshallian and Malthusian ideas, sketched the concept of Economics even better, describing it as *"a science that studies human behavior as a relation between the goals proposed to be achieved and the rarity of the means that have alternative uses"* (Robbins, 1984). Although Marshall and Robbins highlighted the social temptation of the term Economics, it would later be emptied of the socio-human component, becoming a technical synonym for economic science.

Marshal's disciple, Arthur Cecil Pigou, was the one who innovated economic science by enunciating and supporting the concept of the *economy of welfare*. The object of the welfare economy is the analysis of the optimal / rational behavior of the individual consumer in the society (the company being considered as a whole). Pigou launched a direct link between the price level and the level of real wages in an economy, a relationship known in the literature as the Pigou effect and explained by the following chain of causes: increase of the value of general wealth – increase of the consumption – increase of the employment rate – increase of income per consumer – increase of national income – increase of social welfare (Pigou, 1912).

James Edward Meade took over and developed Pigou's theory of welfare. In his view, the welfare of a state is represented by the sum of the welfare of each citizen of that state. Therefore, Meade supports the idea of creating his own destiny for each individual (citizen) by pursuing the expressed interest, under the conditions of free market economy and perfect competition (Trifu, 2003). Meade pursued the issue of equity and utility of economic actions in his research, outlining a bold economic policy, called *"lib-lab policy"* ("lib" - liberalism, "lab" - labor, work). When the company is facing high levels of unemployment and inflation, the government's attitude must aim at efficient demand management and adequate wage setting.

3. The status of social welfare within Keynesianism

Keynesianism emerged as a result of the failure of liberal economic theory. The mistrust of the self-regulatory capacity of the capitalist economy, which emerged against the backdrop of the economic crisis of 1929–1933, determined the revision of the economic theory by reaffirming the state in the socio-economic life. Keynesian promoters converged on the need for state intervention in the economy in order to achieve economic balance and full use of the labor force.

3.1. The Keynesian revolution in the economic theory and its impact on social welfare

The great challenge for the Keynesian theory was to find the causes underlying the fluctuations of production and labor use. Although the realization of the goods could be done at any level of labor production and utilization, Keynes supported the idea of achieving an optimal level of balance.

For the labor force, the optimum level was established at the equilibrium point between the demand and the labor force supply, a point that was in a relation directly proportional to the wage variable. Unlike his predecessors, Keynes argues that the volume of employment depends on the nominal wage and not on the real wage. The workers are willing to work under the conditions of the market offer, but beyond this offer is involuntary unemployment. This is the point where the state intervention is required in order to counteract the negative effects that have occurred against the background of chronic unemployment. Keynes supports state intervention in the form of leadership, but it should be noted that this is totally different from the centralized planning supported by the socialist school of economics (Keynes, 1970).

State intervention is seen as a necessity for coordinating macroeconomic policies, for ensuring a stable course of economic life, for supporting private (entrepreneurial) initiative, but especially for improving the living conditions and increasing the *social welfare* of the citizens. Keynes is associated with the idea of a mixed economy, in which government intervention, under the conditions of market economy and private initiative, has a beneficial effect on the public good.

Although the dominance of the era was the microeconomic analysis, Keynes's theoretical model captures five global macroeconomic dimensions:

(1) The volume of labor use in the Economy (E)
(2) Global Income (Y)
(3) Total Consumption (C)
(4) Total Investments (I)
(5) Savings (S)

The relations drawn between these variables took the form of the following simplified equations:

$$Y=C+I \tag{1}$$
$$S=Y-C \tag{2}$$
$$S=I \tag{3}$$

According to Keynes, the part of the income that remains after deducting the expenses for industrial consumption is the savings. These are equal to the investments, specifying that, unlike the classical predecessors, not everything that is saved automatically turns into investments, equality being considered the optimal situation.

On the same note, the total consumption is in a functional relation to the size of the income: C = f (Y). According to the fundamental psychological law, *"usually and on average, people are inclined to increase their consumption when their income grows, but not as much as their income grows"* (Keynes, 1970). In this approach, the function of consumption for Keynes became dependent on the *"inclination of the community towards consumption"* and, therefore, on the level of income or the level of social welfare of the community.

An important remark made by Keynes refers to the importance of changing the value of money for the capitalist system. Under the conditions of the market economy, where savings are made for future investments, with the mention that those who save are not necessarily and those who invest, the fluctuation of the value of money can have considerable negative effects on the actors involved. Moreover, the instability of the value of money is seen as the cause of unemployment, creating a very important economic and, above all, social problem. Thus, the state is called to intervene in order to stabilize the increase of prices.

As it was mentioned so far, Keynesian doctrine grants a very important role to the state and the use of its resources and means for influencing the socio-economic life. In the view of the interventionist statesmen, the state must be involved even in terms of population size, in order to control it. From the perspective of Malthusian theory, which captures a major imbalance between the evolution of population size and the evolution of livelihoods, in order to increase the nation's social welfare, the state must devise sustainable demographic policies that can guarantee the most efficient distribution of the nation's wealth among individuals. Even though the general theory put forward by Malthus claims that the population multiplies uncontrollably and grows geometrically, while the livelihoods are only in arithmetic progression, in addition to states that preach antinatalist demographic policies (e.g. China, India or other states that faced with a marked increase in population), there are many states that support population growth through various policies to stimulate birth (in this case the examples of Russia, the United Kingdom, Romania or the Republic of Moldova are relevant).

3.2. The propagation of Keynesianism: the welfare economy

With the assimilation of Keynesian theory, economic thinking went through important and profound transformations. The period that followed the application of the principles proposed by Keynes was considered as the period of 30 years of glory and prosperity.

Although the welfare economy is a result of the fundamental debates that can be traced back to Adam Smith, the real materialization comes with the spread of Keynesian doctrine. The welfare economy, as the name suggests, aims at measuring and promoting social welfare.

The first theorem of the welfare economy states that competitive equilibrium stimulates the common good. The traditional definition of the common good captures, within the limits of this concept, the total value of the goods and services produced in the economy, some equivalent of the gross national product. However, the modern interpretation of the *"common good"* implies the Pareto optimum rather than the maximization of the gross national product.

Therefore, the first fundamental theorem of the welfare economy would be summarized in two postulates / arguments:

(1) Suppose that all individuals and companies pursue personal / individual interests.

(2) Competitive balance is an optimal Pareto situation.

Although the first theorem of welfare economy is mathematically correct, it is subject to objections:

(1) This theorem is an abstraction that ignores the real facts. The real economy is never in a state of equilibrium, most markets being characterized either by excess demand or by excess supply. In a continuous attempt to reach a state of equilibrium, the economy is always in motion, consumer preferences, as well as manufacturers' technologies are constantly changing, while the model claims that they are fixed.

(2) The theorem implies a competitive behavior of the market actors, but ignores the monopoly and other mutations characteristic of the market economy.

(3) The theorem assumes that there are no externalities and public goods.

(4) The theorem ignores the distribution.

The second fundamental theorem of the welfare economy states that the market mechanism, modified by the addition of lump-sum transfers, can achieve almost any desired optimal distribution. By establishing stricter conditions, the second theorem would be summarized in the following postulates / arguments:

(1) Suppose that all individuals and companies pursue personal / individual interests.

(2) Almost any optimal Pareto balance can be achieved through the competitive mechanism of the market, provided that the flat rates and transfers corresponding to the natural persons and companies are imposed.

The third fundamental theorem of welfare economy would be summarized in the following postulate / argument: there is no social welfare function that fulfills the conditions of universality, Pareto consistency, independence and non-dictatorship.

If the first two fundamental theorems of welfare economy are encouraging and argue that the market mechanism has great virtue through Pareto's competitive equilibrium and optimality (which are strongly linked), the third theorem presents the impossibilities and paradoxes that appear in economic choices, voting choices, and, in general, almost all the choices made collectively by the society.

The direct result of the welfare economy is the *welfare state*, which has its roots in the neoclassical economists' theory. They argue that the proper functioning of markets mediates the balance between supply and demand, creating in this way the best conditions for meeting the needs of people. The theory advanced by neoclassical scholars is a very consistent one and is supported by the economic success of the capitalist states in the last two centuries.

The *welfare state* is a concept of governance in which the state plays a key role in protecting and promoting the economic and social well-being of its citizens. It is based on the principles of equal opportunities, equitable distribution of wealth, and public accountability for those who cannot rely on the minimum provisions for a better life. The welfare state is seen as a response to the socio-economic pressures that all modern societies face as a result of urbanization, population growth and economic development.

One of the basic ideas promoted by the welfare state is to cover society against risks. François Ewald goes so far as to argue that the welfare state, as a whole, can be interpreted as a social security system (Hagfors and Kajjoja, 2007).

In general, the welfare state includes those statutory or public provisions that absorb the risks faced by society, such as illness, unemployment, age and poverty, as well as public programs that provide or facilitate the provision of housing, education, personal social services and of social assistance of the company (Leibfried and Mau, 2008).

The issue of wealth redistribution is essential for assessing the welfare and welfare policies of the welfare state. For some, the central objective of the welfare state intervention is to prevent poverty and to support vulnerable groups, while others argue that social policies should not be directed only to the poor, but to all citizens of the welfare state.

According to Thomas H. Marshall, class inequalities within the modern society appear as a result of the functioning of the market and of the other social institutions: *"class differences are not established and defined by the laws and customs of society, but derive from the interaction of a variety of factors characteristic of social and economic institutions."* (Leibfried and Mau, 2008).

Goran Therbon creates a typology of welfare states according to two essential dimensions (Preda, 2002):

(1) the level of social rights
(2) orientation towards the labor market and full employment.

According to these, four models of welfare states are distinguished (see figure 2).

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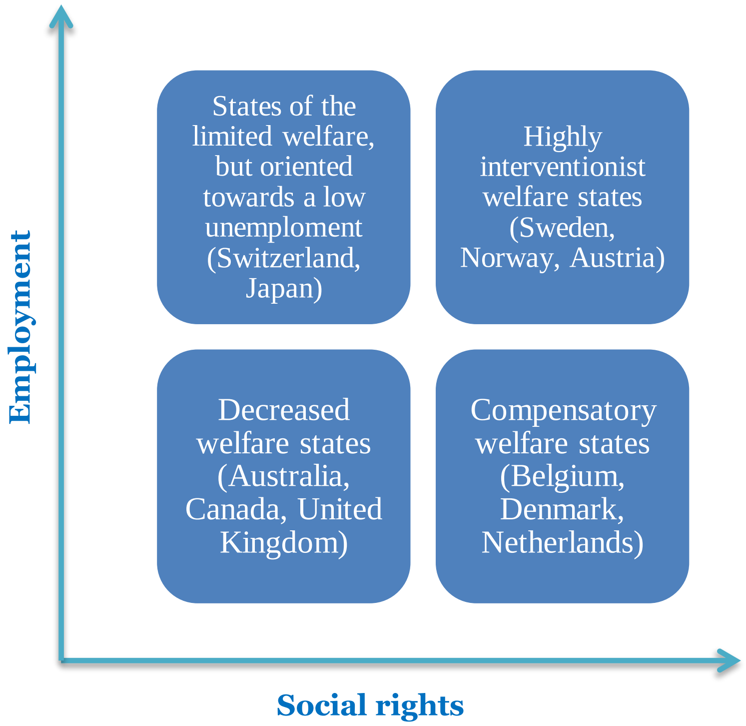
Figure 2 The typology of welfare states in Goran Therbon's vision



Source: *PREDA, M.: Politica socială romanească între sărăcie şi globalizare. Polirom Press, Iaşi, 2002.*

Richard Titmuss (1963) offers a triple perspective on welfare states:

(1) The residualist model (which implements residual social policies), in which the state is called to intervene temporarily, to ensure the social protection of the citizens, only if the primary income of the population, obtained through market mechanisms, would be affected.

(2) The realization model, where is highlighted the importance of meeting the social needs according to the work performance, while the social protection mechanisms must be complementary to the market mechanisms.

(3) The redistributive model in which the *"institution"* of social welfare is an integral part of the society, and its purpose is to provide social services on universal principles and according to needs.

The perspective of the new social risks motivates the contemporary welfare state to reform itself, in order to take into account the transformations in the labor market and the family structures (Crouch, 1999).

4. The social welfare status in the vision of the Austrian school of economics

The distinctive feature of the Austrian school of economics, drawn by Carl Menger at the beginning of the propagation of this economic current, lies in the attempt to build the whole economic science starting from the human being as creative actor and central element of all social processes. In the vision of the Austrian school, the economic theory overlaps with the theory of human action. Austrian scholars conceive the economic science as a theory of human action rather than a decision of individuals, which distinguishes and separates them from their predecessors.

4.1. Economic theory vs. human action theory

The Austrian school tries to build an economic science starting from the human being, made of flesh and bones, considered a creative actor and initiator of all social processes through human action. The concept of human action embodies and, therefore, far exceeds the concept of individual decision. On the one hand, the fundamental concept of the action captures, not only the hypothetical decision-making process regarding goals and means, but also the most important thing, the very perception of the system of goals and means within which the economic allocation takes place. On the other hand, for Austrian theorists, it is most important that decisions to be taken in the form of human actions in which the process involves a series of interactions and coordination acts. For Austrians, economic science is a theoretical corpus regarding the process of social interaction and is far from being a set of theories about choice or decision (Huerta de Soto, 2011b).

Mises (2007) stated that *"economic theory does not rely on material things and objects; it treats people, their appraisals and, consequently, derived human actions. Goods, wealth and all other notions of behavior are not elements of nature, but elements of human spirit and conduct. Whoever wants to enter this second universe must forget the outer world and focus its attention on the significance of the actions that people perform."* Thus, Mises puts human action at the heart of economic theory.

Mises, in his famous treatise, Human Action, defines the state of total satisfaction or satisfaction of a human being as that state that does not give birth and cannot give rise to any action. By human action, man wants to substitute a less satisfactory state of affairs with a better one. The mental capacity of the human being determines the conditions that most satisfy it, and its action seeks to achieve this preferable state. Therefore, the motive that causes man to act in everyday life is always the same: discomfort. According to Mises, the man who would be completely satisfied with the state of things in which he finds himself would have no reason to change things, so he would have no reason to act. Such an individual is seen as being completely happy, an individual who would simply live without worry in terms of *maximum welfare* (Mises, 2007).

If the individual's well-being were reflected by the level of happiness of the human being, then, according to Mises, the maximum level of well-being would have been achieved if all the proposed objectives were achieved. The ultimate goal of human action is always to satisfy the desire of the human being to act. There is no other criterion to capture the increase or decrease in satisfaction than the value judgments of the individual, which differs from one man to another and from one moment to another for the same individuals.

Also with reference to the concept of happiness, Mises argues that the difference between the value of the goal achieved and the expenses involved in the pre-action is a gain, namely, an increase in the happiness of the person who acts.

The human being, acting, chooses between various opportunities that are offered to them. Depending on the hierarchy of values, an alternative to another is preferred. According to the theory of the value hierarchy put forward by Austrian scholars, the individual is tempted to satisfy his more intense desires, with a higher value, and leaves unsatisfied what is of lower value. Every action taken by the human being is always in accordance with the hierarchy of values, since this hierarchy represents an instrument of reflection of human action.

The vast majority of people are primarily seeking to improve material welfare conditions. They want more and better quality food, better home and clothes, health services etc. To explain how the individual interprets well-being, the Austrian School embarks on psychology. On the path of the theory of needs hierarchy, a distinction could be made between the real needs of the individual and his desires.

Human action through multiplication generates social cooperation that seeks the cooperation and self-help of individuals, in order to achieve certain specific results. The set of mutual relationships created through concerted human actions is called society. In the vision of the Austrian School, one of the principles underlying the maximization of welfare within society is the division of labor, one of the fundamental principles of becoming and evolutionary transformation of the society.

In view of the foregoing, the inequality of individuals in terms of wealth and income is an essential feature of the market economy. As long as each person sets his or her own goals to achieve in order to maximize the degree of happiness and, implicitly, the well-being, we cannot even hypothetically speak of perception, of an equality of wealth.

4.2. Entrepreneurial function and social welfare

The entrepreneurial function is at the forefront of Austrian economic theory (Huerta de Soto, 2011b). According to Mises, the entrepreneurial function most often overlaps with the human action, according to which each individual has an entrepreneurial germ in the blood. This is the broad definition promoted by the Austrian School of Economics. In a narrow sense, the entrepreneurial function is to discover and produce new information, which did not exist or was not available until then (Mises, 2007). This production activity is seen by Austrian scholars as a source of the goods necessary for the existence of society (Costea, 2007).

In Israel M. Kirzner's view, the entrepreneurial function is a factor of production, at times different from the other factors of production, due to the non-application of the marginal productivity law. Moreover, this factor of production cannot be sold or rented.

Another important feature of the entrepreneurial function is its ability to generate benefits. In economic terms, the benefits are the profits registered by the entrepreneurs. In a broad sense, profit represents the profit resulting from human action. This is the satisfaction increase obtained by the difference between the higher value attributed to the recorded result and the lower value attributed to the effort to achieve it. Mathematically speaking, it is the difference between revenues and costs. Profit is the motive that guides the individual in any entrepreneurial action taken (Mises, 2007).

The entrepreneurial function exists only in a real world and in a competitive market. The market, in the view of the Austrian economists, is the first social body, and therefore the market phenomena are social phenomena. These (market phenomena) represent the active contribution of each individual. An important feature of the market, with direct effects on the *individual welfare* of its actors, is selection. The market selection process is maintained according to the cumulative effort of all the members of the market economy. Starting from the definition given to human action and the entrepreneurial function in the broad sense, the individual, motivated by the desire to reduce or remove his own dissatisfaction as much as possible, aims, first of all, to earn the most from the services provided by the other market participants and, secondly, to reach that position from which it can contribute the most to the fullest satisfaction of all others. Mises emphasizes that *"this means that he is trying to sell on the most expensive markets and to buy from the cheapest markets."* The result of these efforts is not only the price structure but, more importantly, the social structure, configured by the distribution of profits and losses related to individual actions. The market makes people rich or poor. The market selection process never stops, constantly adjusting the social production apparatus to the changes in demand and supply.

Every individual involved in entrepreneurial activities is also exposed to political risk. Government policies, revolutions and wars can adversely affect them or even take them out of business. Such uncontrollable events by the entrepreneur not only affect him, but the entire market economy and all the participating individuals.

4.3. The state, state interventionism and social welfare

Although the state is considered a service institution for the benefit of society, from the position of perfect liberals, Austrian scholars strongly argue that any intervention of the state in the socio-economic system produces serious disturbances in the functioning of a market economy (Huerta de Soto, 2011a). Murray N. Rothbard, in his book *Man, Economy, and State with Power and Market*, describes interventionism as an intrusion of aggressive physical force into society. Restrictions on economic freedom imposed by the state will, sooner or later, lead to an expansion of state coercive activities in various areas of society, undermining and ultimately destroying individual freedom, the main component of a *society's happiness and well-being*. Government interventionism is the coercive and parasitic seizure of a part of the production of society or, more properly, the drain of welfare from society for the non-productive benefit of the state (Rothbard, 2009a). The state produces nothing, but only redistributes what the market produces.

Austrian scholars describe the free market economy as one characterized by a free society and a free market, where individuals act and interact peacefully and without violence in order to achieve the proposed goals (Rothbard, 2009b). Moreover, in a free society, the individual can prioritize his goals in order to meet the needs. Any government intervention turns into disturbing effects in various areas of socio-economic life. The intervention will have direct and immediate consequences on the utility perceived by the market participants. In a free society, without public intervention, the individual will always act in the way and direction in which he thinks he will maximize the perceived utility on his value scale. If we could use the term society to capture the pattern of individual exchanges, then we could say with certainty that the free market maximizes social utility. Coercive intervention will force individuals to act atypically and do what they would not do voluntarily. Any human action taken under the pressure of interventionism loses its usefulness. In a *"driven"* society, resources are directed toward satisfying all the needs of individuals, so their irrational use is encouraged, thus satisfying their needs to a superficial extent (Hayek, 1997).

As Joseph T. Salerno points out, the free market is fully effective. The allocation of resources in such a market, which is done through the human action of the entrepreneurs, reflects the consumers' anticipated preferences, *"just as the choices of an individual actor lead to a configuration of the use of the resources according to the hierarchy of his anticipated satisfactions"*. The possibility of rational and efficient allocation of production factors by the owners promotes welfare within the society. The free market, without the state interventionism, allows its actors to rationally choose and enjoy the benefits described by the law of comparative advantage. From a social perspective, the unobstructed market is efficient, as it catalyzes social cooperation by creating economically motivated links between producers and consumers. State intervention inhibits this social cooperation through the redistribution of resources to non-productive consumers. The decrease in the volume of resources allocated to meet the most urgent needs of productive consumers is interpreted by Salerno as an obvious reduction of social welfare (Costea, 2007).

5. Conclusions

The aim of the present study was to analyse the social welfare or other terms related to welfare from the perspective of the main schools of economic thought.

Although the term social welfare will appear later, the *physiocratic* scholars used the term *prosperity* to describe the welfare of the society of those times, which was, in their view, limited to the net product generated by the proper processing of the land. The *Classical school of economics* reconsidered the *physiocratic* point of view, starting with the postulate that only peace can develop the human personality and, therefore, guarantee a *better life*. From the position of staunch supporters of the economic liberalism, they blamed and discouraged the state interventionism in the economic activity, considering that the absence of state power in the economy would lead to a better and prosper life. Adam Smith argued that the harmony and balance between the personal interests of individuals and the general interests of society can be ensured by the existing natural order. The natural order is the guarantor of the pleasure, harmony and *welfare of the society*. Individuals do not need state intervention to satisfy their own needs, but they act according to their particular nature, thereby satisfying the requirements of the whole society.

By contrast, *Keynesian promoters* converged on the need for state intervention in the economy in order to achieve economic balance and full use of the labor force. State intervention is seen as a necessity for coordinating macroeconomic policies, for ensuring a stable course of economic life, for supporting private (entrepreneurial) initiative, but especially for improving the living conditions and increasing the social welfare of the citizens. They introduced the concept of *welfare economy*, that aims at measuring and promoting social welfare, and *welfare state*, that is a concept of governance in which the state plays a key role in protecting and promoting the economic and social well-being of its citizens. It is based on the principles of equal opportunities, equitable distribution of wealth, and public accountability for those who cannot rely on the minimum provisions for a better life. The welfare state is seen as a response to the socio-economic pressures that all modern societies face as a result of urbanization, population growth and economic development.

The Austrian school of economists consider that human action and entrepreneurial function are the most important drivers of the welfare. According to them, through human action, man wants to substitute a less satisfactory state of affairs with a better one, thus creating a real welfare. Although the state is considered a service institution for the benefit of society, from the position of perfect liberals, Austrian scholars strongly argue that any intervention of the state in the socio-economic system produces serious disturbances in the functioning of a market economy. They describe the interventionism as an intrusion of aggressive physical force into society. Restrictions on economic freedom imposed by the state will, sooner or later, lead to an expansion of state coercive activities in various areas of society, undermining and ultimately destroying individual freedom, the main component of a *society's happiness and well-being*.

The research revealed that the representatives of the largest schools of economic thought have not overlooked terms such as *prosperity, happiness, satisfaction, wealth,* building a solid foundation to what we know today as *social welfare*.

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