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REVISTA EUROPEA DE ECONOMÍA POLÍTICA

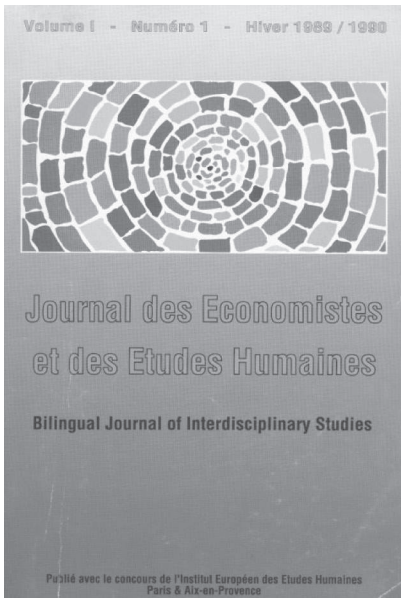


Procesos de Mercado

Plaster and pigments on canvas and wood

Julio Toquero, 2005

"This painting reflects on change, energy—vigorous action—and consciousness: fundamental realities in market processes and in art."



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HIMNO

Dio, che nell'alma infondere
amor volesti e speme,
desio nel core accendere
tu dei di libertà.

Giuramo insiem di vivere
e di morire insieme.
In terra, in ciel
... congiungere ci può,
ci può la tua bontà.

Ah! Dio, che nell'alma infondere
amor volesti e speme,
desio nel core accendere
tu dei di libertà.

Dios, que has querido poner
en nuestra alma el amor y la esperanza,
debes alumbrar en nuestro corazón
el deseo de libertad.

Juramos juntos vivir
y morir juntos.
En la tierra, en el cielo
... reunimos podrá,
podrá tu bondad.

¡Ah!, Dios, que has querido poner
en nuestra alma el amor y la esperanza,
debes alumbrar en nuestro corazón
el deseo de libertad.

Don Carlo (1884), GIUSEPPE VERDI
(Dúo de Don Carlo y Don Rodrigo,
final de la Escena Primera,
Acto Segundo)

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Articles

THE GREEK CLASSICAL ORIGINS OF THE AUSTRIAN EVOLUTIONARY THEORY OF INSTITUTIONS: DEMOCRITUS AND GENEROUS EGOISM

PABLO A. MARTÍN-GRANDE*

Date received: 22 December 2025

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Abstract: This paper explores the philosophical roots of the evolutionary theory of institutions in the Austrian School, tracing them back to Greek thinkers. Through a historical survey ranging from Hesiod to Aristotle, it highlights how the Greek rationalist and constructivist outlook limited the understanding of spontaneous order. Democritus, however, emerges as a notable exception: his conception of cooperation arising from necessity, his defence of private property, and his subjective theory of value anticipate key principles of Austrian thought. Drawing on a modern interpretation by Antonio Escobar, the atomist notion of 'generous egoism' is defined as the moral and epistemological foundation of spontaneous order, whereby social harmony arises from individual self-interest guided by knowledge and freedom.

Keywords: Democritus; Austrian School; spontaneous order; institutional evolution; generous egoism.

JEL Classification: B1, B31, P16.

Introduction

As Schumpeter pointed out, until relatively recently, philosophy was the whole of science; that is to say, the sum total of human

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knowledge and scientific understanding. Until the mid-18th century, metaphysics and physics, the philosophy of society and mathematics, economics and history formed a single intellectual body: a sort of *Universal Science* from which only theology had been excluded since St Thomas Aquinas.

In this context, the Greek philosopher was, in short, ‘the man of intellectual pursuits’ (Schumpeter, 1955). In Classical Greece, reflection on nature, the gods, war, society and the economic order was not conceived as separate disciplines, but as parts of the same rational inquiry into the *cosmos* and the *polis*. Hence, the earliest attempts to understand economic phenomena — such as value or exchange — arose within the realm of moral and political philosophy.

However, the study of the economic thought of the Greek philosophers faces two major additional problems. (1) Firstly, the available documentation is extremely scarce and primary sources are conspicuous by their absence—something particularly striking, as we shall see, in the case of the pre-Socratics. This limitation forces us to rely inevitably on reconstructions and interpretations derived from the few surviving fragments and accounts. (2) Secondly, and closely related to the above, it is difficult to arrive at any certainty regarding the original content and meaning of these authors’ ideas. The scope for interpretation is dangerously broad, and we must be aware that historians and economists sometimes tend to read more into things than is actually there, projecting our own conceptual categories onto those who came before us.

Despite these limitations, and whilst being fully aware of them, we consider it worthwhile to re-examine these great thinkers. This will enable us to assess whether they can still offer valuable contributions to the study of *institutional evolutionism* and, indeed, to humbly venture to propose that one of these authors, Democritus, anticipated insights deeply akin to Austrian thought which, to this day, have not received the attention they undoubtedly deserve.

Objectives and Methodology

The central objective of this work is to offer a philosophical reinterpretation of Democritus’s thought through the lens of the Austrian

School, analysing his key concepts and their connection to the evolutionary theory of institutions. Through a historical overview spanning from Hesiod to Aristotle, we identify how the *nomos/physics* dichotomy — the tension between human convention and nature — limited the understanding of spontaneous order in Classical Greece, positioning Democritus as a key exception and an early precursor to the tradition of unplanned social order.

To achieve this objective, the research draws on a methodology of qualitative and comparative analysis within the framework of the history of economic and social thought. Praxeology and the theory of spontaneous order are therefore employed as useful hermeneutic tools for unravelling Democritus's fragments. This research strategy is justified by the need to bridge a historiographical gap and by the relevance of reclaiming the atomist tradition as an early attempt to reconcile individual interest with social harmony.

In this regard, the present study utilises the work of Antonio Escotado as a fundamental interpretative bridge. The choice of this author stems from his ability to link atomist ontology—where the individual is the ultimate unit of reality—with the ethics of freedom and the role of enterprise. Escotado enables us to translate Democritus's '*physics*' into an 'ethics of commerce' and of knowledge, facilitating a connection with authors such as Hayek or Mises.

Finally, the structure of the article follows this logic: following an analysis of the Greek intellectual context and its limitations in understanding institutional evolution, the figure of Democritus is explored in depth through his original fragments (following the standard Diels-Kranz numbering system), concluding with a section of conclusions that summarises his pioneering contributions in line with the evolutionary theory of the Austrian School.

1. An overview of Greek economic thought

In Greece, a stark duality is evident between the collectivist and militaristic vision of Sparta and the relatively more liberal, commercial and democratic one of the city of Athens. These are two

radically opposed conceptions with regard to government, lifestyle and the role of the individual (Huerta de Soto, 2008). A cyclical rivalry that reappears time and again throughout human history and remains alive to this day, as an endless struggle between freedom and the enemies of trade (Escohotado, 2014).

This duality is also reflected in their thinkers and in the age-old belief that all men possess either a *Platonic heart* – in the case of those who believe that people are incapable of fending for themselves and need to be ‘guided’ – or an *Aristotelian heart* – of those who believe that human beings, when free, can act responsibly and do not deserve to be treated as a mere herd. However, as we shall see, some of Aristotle’s ideas can be frankly contradictory.

The influence of Greek thought on the Western world is evident in numerous fields, and although it is widely believed that, in economic matters, the masters of Classical Greece offered little more than a general approach to the social sciences, it cannot be denied that even in that distant era it is possible to identify what we might consider to be the foundations of economic and legal analysis (Martínez Meseguer, 2009, p. 30). However, these early outlines were soon overshadowed by an intellectual development that increasingly moved away from a broad understanding of the principles of human action, spontaneous order and the dynamic processes of cooperation, characteristic of the Austrian school (cf. Huerta de Soto, 2021, pp. 83–92)¹.

2. The seeds of Hesiod, Xenophon and Demosthenes

Ancient Greece reveals an essentially non-economic view of the world, which is hardly surprising given the central role of slavery and the fact that productive activities were more closely linked to social status and ideology than to purely economic criteria (cf.

¹ As Rothbard pointed out in his work *A History of Economic Thought* (2013, p. 37): “The Greek and Socratic ethical ideal did not encourage the unfolding and development of one’s own individual potential, but rather demanded a public or political figure moulded to conform to the demands of the *polis*. That kind of social ideal was designed to promote a static society with politically determined roles, certainly not a society of creative, dynamic and innovative individuals”.

Finley, 1986). For Rothbard, ‘the statism of the Greeks led to the customary aristocratic exaltation of the virtues associated with the military arts and agriculture’, which revealed an ‘indiscriminate contempt for labour and commerce, and therefore for profit and the pursuit of gain’ (Rothbard, 2013, p. 36).

A clear example of this attitude can be seen in their conception of interest: the first – negative – reflections on usury and lending at interest appeared with the ancient Greek philosophers (Martín-Grande, 2025). In line with his neo-Keynesian approach, Galbraith pointed out that the Greeks’ strong condemnation of the charging of interest could be explained by the fact that “if capital goods and circulating capital are of little visible importance in the economy, as was the case in the domestic economic system of Aristotelian Greece, interest is not regarded as a cost of production, but rather as a levy that the more fortunate impose on the less fortunate or less wealthy’ (Galbraith, 1991, p. 22). Undoubtedly, these ideas took deep root in the collective mindset and, in some ways, still resonate today.

Greek life, organised around the *polis* (city-states), had its intellectual centre in the political sphere. The great thinkers, removed from money and the manual labour they so detested, devoted themselves almost entirely to contemplation, philosophy and, in any case, the *art of administration*. However, there were exceptions: surprising and rare authors who showed a certain sensitivity to topics we would today regard as belonging to the field of economics, capable of going beyond mere *oikonomia* and formulating remarkable theoretical insights.

It is not uncommon to come across the name of Hesiod, an 8th-century BC Greek poet, in the literature; he is often cited as the first ‘economist’. Rothbard sees in his work *Works and Days* verses that reflect genuine economic thought, in which the artist’s concern for scarcity is evident—he hailed from the ancient agrarian community of Ascra (Rothbard, 2013). Apparently, it was the story of a dispute between Hesiod and his brother Perses over an inheritance, but beneath that plot—whether real or fictional—lies, as Martínez Gorriarán aptly reflects in his book *In Defence of Capitalism*, the advocacy of a way of life based on ‘hard work, economic prudence and seizing opportunities’ (Martínez Gorriarán, 2022, p. 131). This represents a

departure from the Homeric tradition within *paideia* and, for Polanyi, ‘the birth of the isolated individual’ (Polanyi, 1994, p. 231).

Another example is Xenophon (c. 431 BC–c. 354 BC), who offers interesting insights into subjective conceptions of value — albeit from a rather utilitarian perspective (Ravier, 2016, pp. 43–45) —, as well as to the division of labour, marginal utility and the analysis of the relationship between population concentration and the specialisation of production (Martínez Meseguer, 2009, p. 31). In these respects, once again, certain proto-Austrian roots can be traced.

From a strictly evolutionary perspective, the first signs of the seeds of later institutional theories appear in the writings of authors such as Demosthenes (c. 384 BC – c. 322 BC), who approaches conceptions of norms of customary and evolutionary origin, arising without any prior intention to establish them (cf. Fernández-Galiano, 1986), “associating this concept with the idea of nature” and “always referring to unwritten norms as those that are superior to written positive law” (Martínez Meseguer, 2009).

3. Heraclitus and the idea of change

Even before Demosthenes’ famous speeches, we find in Heraclitus of Ephesus (c. 540 BC–c. 475 BC) one of the earliest formulations of evolutionary thought. This pre-Socratic philosopher conceived of the world as a perpetual flow, a constant movement that affects everything, even though the senses might seem to suggest the opposite. In this sense, his view is akin to Mises’s idea that, in the realm of human action, nothing is permanent except, precisely, change (cf. Mises, 2024).

Heraclitus did not understand *change* as a chaotic or meaningless process, but as the manifestation of an internal order — the *logos* — which governs the movement of the universe. This order is expressed through tensions and contrasts which, far from destroying harmony, make it possible: balance arises from conflict. The *nomos* thus ceases to be linked to the will of the gods and comes to be identified with the natural order of the cosmos itself. Even the order of the *polis* appears as an extension of that *universal order*, both ultimately governed by the same rational law.

Ultimately, Heraclitus's search for a universal norm that gives meaning to change reflects the age-old human unease at the very idea of evolution and transformation.

Although his influence on ancient philosophy was neither particularly profound nor enduring (Bernabé Pajares, 2024, p. 135), for more modern authors he is one of the pre-Socratic philosophers who has aroused the most passion. Heraclitus's thought has fascinated philosophers as diverse as Hegel and Popper for centuries. Although little more than a hundred fragments of his work have survived—many of which have probably been altered—various scholars have recognised a remarkable internal coherence in them (cf. Barnes, 1992; Hegel, 1988). His philosophy is structured around three major theses: that of constant flux or change (*panta chorei*), that of the unity of opposites, and that of monism. Heraclitus was, according to Popper, the first thinker to discover the idea of change and to extend his reflection from the natural to the ethical and political spheres, a discovery that Popper himself described as a veritable 'earthquake in which... everything seems to oscillate', by revealing that everything in the world is in a state of perpetual transformation (Popper, 1992, pp. 26–27).

Despite the inevitable limitations of his time, Heraclitus's thought should be judged favourably: he was a thinker who, amidst a period of transition towards more complex societies, managed to intuit with astonishing depth the idea of change and becoming. Whilst some later interpretations of his philosophy led to historicist readings — and, consequently, ones contrary to the approach of the Austrian School — this does not diminish the value of his original contribution. That an author from the 6th century BC should have attained such a penetrating understanding of the dynamism of the natural order constitutes, in itself, an extraordinary display of intellectual genius; his reputation for being 'obscure' (123) reflects rather the difficulty of a body of work that was two and a half millennia ahead of its time.

'It is highly probable that, had the Greek philosophers taken as their basis the evolutionary approaches that seem to emerge from Heraclitus's thought, whilst incorporating into the concept of *physis* not only everything that is a product of Nature (innate instincts),

but also that which is not the product of deliberate design, such as customary norms or traditional morality, whilst clearly distinguishing it from *nomos*, the Greeks would have been much closer than we realise to the evolutionary concept that the Austrian School developed many centuries later. The truth is that, unfortunately, this was not the case, and what was good and natural was equated with what was instinctive and innate, whilst what was unnatural and bad was equated with everything that actually led society to evolve towards higher stages, such as customary norms, which were mistakenly placed on the same level as the deliberate decrees of rulers"².

4. The great Greek error: *nomos* and *physis*

One of the most thought-provoking aspects of F. A. Hayek's analysis of the origins of social thought lies in his critique of the Greek philosophical tradition. In *Law, Legislation and Liberty*, the author argues that the ancients' principal intellectual error was the sharp distinction between *physis* (nature) and *nomos* (law or convention), which prevented them from grasping the possibility of a spontaneous order. For the Greeks, every order had to belong necessarily to one of these two spheres: either it was something natural, endowed with its own internal principle of motion (*physis*), or it was the result of human design and rational deliberation (*nomos*).

This dichotomy (Hayek, 1985, vol. I, p. 50) led to a constructivist conception of social order, in which the existence of a harmonious system or a coherent structure could only be explained by the action of a legislator or an organising mind. Thus, both Plato and Aristotle — and, subsequently, much of Western political thought — assumed that the organisation of society had to conform to a rational plan imposed from above. Consequently, notions of institutional evolution, social learning and the self-formation of norms—that is, the idea that institutions can emerge and be refined without conscious design, as a result of the interaction of individuals over time—remained outside their conceptual horizon.

² See also Hayek (1990, Appendix A).

For this reason, Hayek proposes distinguishing between ‘*cosmos*’ (spontaneous or self-organised order) and ‘*taxis*’ (deliberate order or organisation). The former refers to an order that arises from human action but not from human design, whilst the latter refers to an imposed and order deliberately constructed to fulfil a specific purpose (Suárez Brito, 2024, pp. 110–113).

Hayek emphasises that this conceptual error hindered, for centuries, an understanding of the spontaneous processes that give rise to legal, moral and economic order. The Greeks failed to recognise a third kind of order — the cosmos — which arises from human action but in a spontaneous and unplanned manner (Hayek, 1985). Hence, despite its philosophical grandeur, their legacy has helped to consolidate the constructivist rationalism that would subsequently inspire both modern social engineering and interventionist economic theories (cf. Hayek, 2008, p. 320). In contrast to this tradition, Hayek proposes a return to the notion of spontaneous order, understood as a form of social *physis*: an evolutionary process which, without the need for an omniscient legislator, enables the coordination of individuals and the development of institutions through experience, imitation and cultural adaptation.

5. The Sophists, Socrates and intellectual modesty

Those who probably introduced this distinction between *nomos* and *physei* were the Sophists (Martínez Meseguer, 2009, p. 38). The Sophists, active during the second half of the 5th century BC, introduced an anthropological shift into Greek philosophy by placing man, rather than the cosmos, at the centre of reflection. They maintained that ‘man is the measure of all things’, thereby denying the existence of absolute and universal truths, save for the idea of *physis* as the nature common to all human beings. This conception led them to defend the essential equality of all men and to question the divisions between Greeks and barbarians, freemen and slaves. However, by excluding customary norms from their notion of natural law, they regarded *nomos*—social conventions and positive laws—as a form of domination contrary to nature. The most radical Sophists derived from this a relativist ethic in which only two natural principles

prevailed: the pursuit of pleasure and the rule of the strongest, thereby reducing human behaviour to the instinctive level. This tendency, taken to extremes by the Cynic school, in a sense anticipated the naturalist and primitivist view that Rousseau would take up centuries later and which Voltaire so brilliantly ridiculed³.

Socrates (c. 470 BC–c. 399 BC), an intellectual opponent of the Sophists, introduced one of the most profound and enduring ideas in Western philosophy: the recognition of one's own ignorance as the starting point of knowledge. This notion, which has often been interpreted as mere irony, actually encompasses an epistemological conception of enormous scope, based on intellectual modesty and the recognition of the limits of human reason. As Karl Popper pointed out, Socrates — as is evident from Plato's *Apology* — was an advocate of the fallibility of knowledge and of the need for critical dialogue as a means of approaching the truth (Popper, 1994)⁴.

This anti-rationalist stance, opposed to any claim to absolute certainty (Escohotado, 1988, p. 95), had a decisive influence on Popper's philosophy and, through him, on F. A. Hayek's theory of knowledge and social order. Both authors shared the Socratic idea that human reason is limited and that knowledge expands through the correction of errors rather than through conscious planning. Indeed, the epistemological humility underlying Socratic thought constitutes one of the pillars of the evolutionary theory of spontaneous order advocated by the Austrian School (cf. Martínez Meseguer, 2009, pp. 40–41).

Unfortunately, this lesson in intellectual modesty was not fully taken on board by Socrates' successors. Neither Plato nor Aristotle — despite their philosophical greatness — managed to preserve their teacher's critical and anti-dogmatic spirit, drifting instead towards an exaltation of the power of reason that would later fuel modern constructivist rationalism, with its consequent claims to social and economic control.

³ "I have received, sir, your new book against the human race (...). No one has ever employed so much ingenuity in seeking to turn us into beasts. Reading your work makes one want to walk on all fours" (Voltaire, *Letter to Rousseau*, 30 August 1755).

⁴ A different perspective can be found at Huerta de Soto (2021, p. 88).

6. Evolutionary institutions in Greek social reality

As is often the case in history, although Greek thinkers — from the Sophists to Aristotle — failed to fully grasp the difference between customary norms and laws drawn up by the legislator, in the social and political practice of classical Greece there was indeed a clear awareness of this distinction (cf. Spiegel, 1973, pp. 22–23). Whilst philosophers tended to rely on reason as the ultimate source of order, the Greek people recognised the authority of tradition and considered that true law was that which emanated from ancestral custom, rather than from the arbitrary will of rulers. Legislating therefore consisted of giving written form to a pre-existing norm, the essence of which was understood to be immutable, even though it might be refined or supplemented over time. This was acknowledged by the aforementioned Demosthenes: ‘all these norms not only appear in legal precepts, but nature itself has also enshrined them in unwritten customs and in the ethical principles of mankind’ (in Fernández-Galiano, 1986, p. 106).

This conception of law, which accorded primacy to custom over the legislative will, was deeply rooted even in classical Athens, as the anthropologist A. H. M. Jones pointed out when describing the limitations imposed on the Assembly:

“At no time was the Assembly authorised to amend the law by decree. The proposer of such a motion could be subject to the famous charge of ‘procedural illegality’, a defect which, if confirmed by the courts, annulled the relevant decree and, after certain time limits had elapsed, entailed a severe penalty for the guilty party” (Jones, 1957, p. 52; Hayek, 1985, vol. I, p. 159).

However, over time this practice began to erode. The Assembly’s tendency to legislate outside the established law gradually gained ground, underpinned by the —typically rationalist— belief in the unlimited capacity of human reason to design the social order. Thus, whilst the Greek institutional reality had emerged from customary and evolutionary processes, political theory began to drift towards a legislative constructivism that would ultimately sever the link between law, tradition and collective experience. In Hayekian terms,

we might say that law ceased to be a '*cosmos*' (spontaneous order) and became a '*taxis*' (imposed order), which, according to the Austrian school of thought, marks the beginning of constructivist political thought and the tendency towards social engineering. A shift to which, as we shall see shortly, our next guests contributed decisively.

7. Plato and Aristotle

Plato (c. 427 BC–c. 347 BC), a follower of Socrates, presented and attempted unsuccessfully to implement his conception of political and economic order. In his model of the ideal state—of a monarchical-communist nature—he proposed a totalitarian, collectivist and hierarchical organisation, opposed to free exchange and to individual interest of any kind (Touchard, 1990, pp. 56–66). According to this vision, the lower classes were responsible for trade and productive tasks, whilst the upper classes, devoted to government and contemplation, were to remain detached from money and from any economic activity considered vulgar (cf. *The Republic* and *The Laws*).

Despite this, Plato made a significant contribution to the history of economic thought by being the first to clearly formulate the idea of the division of labour, pointing out that specialisation increases efficiency in production. However, his hostility towards trade and private accumulation, combined with his desire for state control, led him to advocate a centralised fiat currency system, rejecting the use of precious metals because of their universal nature and the fact that they were not subject to political control:

“He disliked gold and silver precisely because they served as international currency, accepted by everyone. Since precious metals are universally accepted and exist outside the government’s authority, gold and silver constitute a potential threat to the economic and moral regulation of the *polis* by its rulers. Plato advocated money created by the government (a fiat standard), with heavy penalties imposed on the importation of gold, and the exclusion from citizenship of merchants and workers who handled money” (Rothbard, 2013, p. 41).

Of course, the ideas of Plato and Neoplatonists such as Plotinus (204–270 AD), concerning an original state of the eternal, ideal and perfect man who falls from grace through existence and must return to his ‘true’ state, exerted an enormous and clear influence on Karl Marx and socialist thinkers.

Although Plato inherited from Heraclitus the idea of a cosmic law of change, he interpreted it in the opposite sense: for him, change entailed corruption and decay, and therefore had to be curbed. His philosophy, based on the Theory of Forms, conceived of society as a static, hierarchical structure that had to be kept unchanged through strict political control (Martínez Meseguer, 2009, p. 42). Consequently, he rejected the possibility that the social order or the market could self-regulate or evolve spontaneously, regarding commercial activity as a necessary evil and the pursuit of profit as something degrading. His rationalist and collectivist outlook sidelined any notion of institutional evolution — and, indeed, anything that threatened the *status quo* — which explains the severe criticism that economists of the Austrian School have subsequently levelled at his thinking.

Aristotle (c. 384 BC–c. 322 BC), a disciple of Plato and tutor to Alexander the Great, was probably the most famous and influential of all classical thinkers: a veritable *wellspring* from which every era and every author has drawn diverse interpretations. His economic and social views differed greatly from the tyrannical, class-based and collectivist ideas of his teacher Plato, although he too failed to grasp the workings of the economic order, largely sharing in the dominant anti-market current of Hellenic thought (Huerta de Soto, 2021).

It is true that Aristotle defended private property, intuited the subjective theory of value — by distinguishing between ‘use value’ and ‘exchange value’ — and even, as Professor Cachanosky (2023) pointed out, showed himself to be in favour of certain forms of exchange and trade, albeit always from a restrictive moral perspective. He also made far-reaching contributions in the field of epistemology: on the one hand, his distinction between *potency* and *act*; and on the other, his conception of *formal essences* and their specific *material* manifestation, which would later serve as the basis for

Mises's methodological distinction between *theory* and *history*⁵. However, he condemned usury as unjust on the basis of his famous argument regarding the 'sterility of money', later taken up by St Thomas Aquinas (Böhm-Bawerk, 2015), he disparaged labour and business profit, adopting a hostile attitude towards merchants (Politics, I.3–4), and upheld a confusing and contradictory notion of justice applicable to exchange (Huerta de Soto, 2008); coming closer, more so than is often recognised, to the Spartan ideal of his teacher (cf. Spiegel, 1973; Rothbard, 2013; Martín-Grande, 2021).

Nor did Aristotle conceive of evolutionary explanations regarding the origin and development of social institutions. For him, all order had to be the result of deliberate human organisation, which prevented him from recognising the possibility of spontaneous order or a process of institutional self-formation. His economic thought, centred on domestic *oikonomia* and the management of small productive units, reflected an essentially static and anthropocentric view, alien to market dynamics and the notion of self-regulation (cf. Martínez Meseguer, 2009, pp. 42–43). As Hayek pointed out, Aristotle was unable to interpret '*physis*' as a process of growth or evolution, erroneously distinguishing between a deliberate order and a spontaneous one (Hayek, 1990, p. 89). This static conception would limit the subsequent development of a theory of social order based on learning processes and institutional evolution, ruling out for centuries the possibility of a truly dynamic understanding of norms and human cooperation.

8. Epicureanism, scepticism and the apparent failure of Greek thought

Following Aristotle, Greek philosophy entered a phase of intellectual retreat and growing historical pessimism. The Hellenistic schools — in particular Epicureanism and Scepticism — abandoned

⁵ In fact, there are quite a few authors who place Mises within the Aristotelian-Thomist tradition, albeit with a clear Kantian influence on his epistemology. See, for example, Yates (2005), who emphasises that Misesian praxeology can be understood as a synthesis between Aristotelian realism and Kantian transcendental apriorism.

any aspiration to understand social order as the result of an evolutionary process, falling into a clear form of legal and moral positivism. Both Epicurus (c. 341 BC–c. 270 BC) and the Sceptics regarded human laws as nothing more than arbitrary conventions, pragmatic agreements between people to determine what is permitted and what is forbidden, without any reference to a spontaneous principle or a higher order underpinning them.

In this context, philosophy withdrew into individual ethics and the pursuit of *ataraxia*, setting aside reflection on the origin and dynamics of social institutions. Even schools such as the Cynics, led by Diogenes of Sinope (c. 412 BC–c. 323 BC), took their distrust of all forms of organisation or norms to extremes, promoting a sort of culture of abandonment and deprivation, closer to renunciation than to a rational understanding of community life.

In short, it can be said that no Greek thinker ever fully grasped the spontaneous formation of social structures, nor did they intuit the logic of institutional evolution that would later be highlighted by the theorists of the Austrian School. The few exceptions — such as Socrates' intellectual modesty or certain pre-evolutionary insights of Heraclitus — were stifled by constructivist rationalism and an excessive reliance on reason as an organising principle.

Had those more prudent positions—open to ignorance and learning, which Popper and Hayek would term 'epistemological modesty'—prevailed, perhaps Western thought might have avoided the drift towards exaggerated rationalism and social constructivism that characterised its subsequent development.

9. Democritus as a precursor to the Austrian School's evolutionary theory of institutions

However, this 'Greek failure' was not complete: in Democritus's work, one can glimpse certain elements that, surprisingly, anticipate the modern notion of the spontaneous evolution of institutions. It is precisely this perspective that constitutes the original contribution of this article, which we propose to analyse systematically here, demonstrating that the seed of evolutionary thought in economics and legal did not arise exclusively in modernity, but

was already present, albeit in an embryonic form, in pre-Socratic philosophy.

9.1. *The ‘cheerful philosopher’ and his economic contributions*

Democritus of Abdera (c. 460 BC–c. 370 BC), known as the ‘cheerful philosopher’, a disciple of Leucippus and possibly the teacher of Protagoras, was one of the most influential thinkers of antiquity. He has traditionally been counted among the pre-Socratic philosophers, although in reality he was a contemporary of Socrates. Plato, who was hostile to his doctrines, went so far as to propose burning his writings⁶, whilst Aristotle was familiar with them and quoted them. Furthermore, his ideas influenced Epicureanism and were revived many centuries later during the Enlightenment, ultimately marking a milestone in the history of philosophy and science.

Associated with the so-called *School of Abdera*, he is recognised as the principal systematiser of *atomism*, the doctrine according to which the universe is composed solely of atoms and a vacuum. For this reason, he has sometimes been regarded as the ‘father of physics’ or even the ‘forerunner of modern science’. However, Democritus not only anticipated a materialist conception of nature, but also outlined insights relevant to the social sciences: his reflections already contain, albeit in embryonic form, the dual (such as legitimate/illegitimate knowledge, genesis/finality) and subjective principles that the modern Austrians would systematise in the form of theories of human action, exchange and institutions.

This interpretation, which we propose here, is not so surprising if we recall that, as Rothbard pointed out, Democritus made remarkable contributions to economics in the form of two important ‘lines of argument’ (Rothbard, 2013, pp. 39–40). On the one

⁶ We shall soon see the reasons why this reaction on the part of Plato—whose political project in *The Republic* is a mixture of classism and communism—is not surprising. Unfortunately, this attitude proved effective, and almost all of Democritus’s work was destroyed: ‘his work turned out to be one of the primary targets for the faction opposed to sensual desire, and only fragments survive of the 73 treatises he composed’ (Escotado, 2024, p. 123).

hand, he was the founder of the theory of subjective value and, on the other, he was a pioneer in the early defence of private property. This idea is also supported by Henry W. Spiegel, who goes further, regarding Democritus as the author of a true treatise on political economy.

Although his moral values were absolute, his theory of value was entirely *subjective* (Spiegel, 1973, p. 28), going so far as to state that ‘whilst a thing is good or true for all men alike, what is pleasant for one is not so for another’ (69) or, in another translation, that “what is good and true is the same for all men; what is pleasant, on the other hand, is different for each person” (cf. Bernabé Pajares, 2024)⁷. His subjective analysis of utility (233) likewise anticipates the concept of *diminishing utility*: “Not only is valuation subjective, but the utility of a good may also be reduced to zero and even become negative if its supply proves excessive” (Rothbard, 2013, p. 39).

Democritus also anticipated an early approximation of the concept of *time preference*, which is so important in the Austrian school of thought (cf. Böhm-Bawerk, 1998). Among his fragments we find: “The old man was once young, but the young man is uncertain whether he will reach old age. What is good and already realised is better than what is uncertain and yet to come” (295). And, in another translation: “a good in hand is, therefore, superior to one that is yet to come” (cf. Spiegel, 1973, p. 28). This is entirely in line with the idea of the subjective valuation of time: a person prefers a good today rather than in the future.

As mentioned earlier, the cheerful philosopher also put forward a pioneering defence of *private property*. Just as Aristotle would later do, Democritus argued that private property, unlike communal property, is more appropriate, just and useful for life in society, since ‘effort is sweeter than idleness when one earns for oneself that for which one strives, or knows that one will be able to dispose of the product of one’s effort’ (243).

In short, Democritus not only explored nature and atoms, but also laid the foundations for an early understanding of economics

⁷ Unless otherwise stated, Democritus’s fragments are cited according to the standard Diels-Kranz (DK) numbering system, with preference given to the Spanish translation by Bernabé Pajares (2024).

and social institutions. His insights into subjective value, diminishing utility, time preference and private property anticipate fundamental concepts of the Austrian theory of human action and institutions. However, beyond these economic contributions, we argue that Democritus can be regarded as a precursor of modern evolutionary thought: his work shows that, even in classical Greece, there were the seeds of ideas which, centuries later, would enable us to understand how social order can emerge from individual interaction, without the need for conscious design. Institutions, like atoms, arise from multiple interactions rather than from a deliberate plan. Society, like nature, is organised from the bottom up.

9.2. *A generous selfishness: the Escohotadian interpretation*

To this end, and as a starting point, we draw on a modern interpretation of Democritus's legacy proposed by the philosopher Antonio Escohotado in his book *Hitos del Sentido. Notes on Archaic and Classical Greece*. Although best known for his works *Historia General de las Drogas* and his trilogy *Los Enemigos del Comercio*, Escohotado devoted much of his life to the study of the ancient Greek philosophers, as well as to methodology and epistemology. Evidence of this can be found in his handbook *Philosophy and Methodology of the Sciences* and his studies on Greece, notably the aforementioned volume *Hitos del Sentido*, which was also the last book he published during his lifetime and offers an in-depth analysis of pre-Socratic thought.

In it, Escohotado (2024, p. 125) highlights Democritus's originality in conceiving of institutions and social life from an eminently practical perspective, based on immediate utility rather than on predestined ends or innate dispositions of human nature:

“Returning to Democritus, another of his insights was to contrast ‘legitimate’ knowledge (*gnesin*) — ‘a finer organ of perception’ (11) — with ‘bastard’ knowledge, that is, knowledge burdened by the partiality of desire, or in any case self-referential. A genetic perspective suggests that ‘organic beings arose from the earth’s mud’, and the driving force behind their progress was ‘hardship’, as is

the case with humankind: this taught them to unite with their fellow humans to fight off predators, whilst the practical need to communicate led to the development of language, and the invention of tools gradually elevated them to a civilised life.

Moreover, genesis is not an end in itself, and Democritus conceived of institutions in terms of immediate utility, without resorting to theological or teleological considerations. Goodness, for example, is due more to customs and discipline than to an innate disposition in human nature, although the eventual consequence of pragmatism may well have been civic dignity. 'I would rather discover a causal link than become a client of the Persian emperor' (118), he says at one point, only to clarify elsewhere that 'living in poverty under a democratic regime is preferable to any prosperity under tyrants' (16). Ultimately, no happiness compares to that which results from combining a love of knowledge with a love of autonomy'.

Democritus' 'generous egoism', understood as rational cooperation for mutual benefit, anticipates Hayek's principle of spontaneous order: social harmony arises not from design, but from the free interaction of individuals pursuing their own ends under shared rules. Let us examine this in detail.

9.3. *Interpretation and proposal from the Austrian perspective*

In this section, we shall examine each part of Escotado's summary interpretation in detail, with the aim of analysing the extent to which his view is compatible with the positions of the Austrian thinkers.

a. Legitimate knowledge vs. bastardised knowledge

In the phrase 'contrasting "legitimate" knowledge (*gnesin*) with "bastard" knowledge, or knowledge burdened by the partiality of desire, or in any case self-referential', Escotado draws on Democritus's distinction between 'legitimate' knowledge (*gnesin*)—understood as a refined faculty for perceiving reality—and

‘bastard’ knowledge, which is dependent on desire, subjectivity or personal interest. Underlying this is a somewhat negative conception of ‘bastard’ knowledge and the idea that genuine knowledge requires an effort of detachment: looking beyond appearances and immediate passions. This perspective fits seamlessly into a philosophical tradition that champions the disinterested pursuit of truth as an exercise in freedom. Yet at the same time, it represents a division between two types of knowledge: true (from the Greek *gnesis*) or scientific knowledge, and that which is purely subjective (‘bastard’) and, consequently, practical.

We can see here a possible precursor to Michael Oakeshott’s conceptual distinction between ‘scientific knowledge’ and ‘practical knowledge’ (1991, pp. 12 and 15) which, as Huerta de Soto rightly points out (2012 a, pp. 38–40), finds its equivalent in Hayek’s notion of ‘centralised knowledge’ and ‘dispersed knowledge’ (Hayek, 1972), in the “articulated knowledge” and “tacit knowledge” of Michael Polanyi (1959, pp. 24–25), and in Ludwig von Mises’s distinction (2024, pp. 130–137) between “knowledge of classes” and “knowledge of unique events”. However, it should be noted that whilst in Democritus the division has a normative bias — what is legitimate is true and what is illegitimate is illusory —, in modern authors the distinction focuses on entirely methodological aspects.

In any case, we may propose an extension of the table on types of knowledge drawn up by Huerta de Soto in his works:

TABLE 9.1.
TWO DISTINCT TYPES OF KNOWLEDGE (EXPANDED)

	<i>Type A Knowledge</i>	<i>Type B knowledge</i>
Oakeshott	Practical (traditional)	Scientific (or technical)
Hayek	Dispersed	Centralised
Polanyi	Tacit	Articulated
Mises	Based on ‘one-off events’ or ‘case-by-case’	On ‘classes’
Democritus	Bastard (self-referential)	Legitimate (<i>gnosis</i>)

Modern Austrian economists consider that all scientific knowledge (Type B) has an unarticulated, tacit basis (Type A), and that advances in Type B (scientific and technical) are rapidly translated into new Type A knowledge (practical). Economics would therefore be Type A knowledge concerning Type B knowledge (Huerta de Soto, 2024, pp. 52–54)⁸.

For praxeologists of the Austrian School, Type A knowledge has three main characteristics: (1) It is practical and subjective knowledge, in line with Democritus. It is not scientific, but arises from *praxis*, from action, and can only be created by the individual. (2) It is unique and unrepeatable, as each individual possesses knowledge that no one else has. It is private and dispersed knowledge, or, in Hayek's words, 'scattered' (cf. 124), which is expressed largely through prices, understood as signals of information (Hayek, 1972). (3) It is tacit and cannot be articulated. This implies, again in line with the atomist fragments, that the actor learns to carry out certain actions (*know-how*), acquiring behavioural habits without needing to know the underlying scientific and technical foundations (*know-that*). Of course, Type B knowledge (articulable) contributes to the formation of new Type A content (non-articulable). Following the Austrian school of thought, institutions are composed precisely of this tacit, inarticulate and coordinating knowledge, generated in an entrepreneurial manner (González González, 2015, p. 60).

b. Scarcity, genesis and cooperation

The text emphasises that "organic beings arose from the earth's mud, and the driving force behind their progress was hardship, just as it is with man". For Democritus, the genesis of phenomena does not necessarily imply an ultimate purpose (in a deterministic sense, rather than one of subjective ends). In contrast to teleological⁹, or

⁸ The scope and development of this methodological dualism are well set out in Mises (2021, pp. 57ff) and also in the two works cited by Professor Huerta de Soto (2012 a and 2024).

⁹ It is important to be clear that, in the context of Mises and Austrian theory, 'teleological' is understood as intentional action directed towards subjective ends chosen

religious explanations, Escohotado highlights that the philosopher from Abdera interprets human organisation as the result of hardship (discomfort or dissatisfaction) and the need for cooperation. Hardship—the experience of deprivation and need—thus becomes the driving force behind human progress, spurring invention, mutual aid and civilised life. Language, tools and all other institutions therefore emerge from contingencies and adaptations, not from a transcendent design.

This approach bears a striking resemblance to the praxeological approach of the Austrian School, pioneered by Carl Menger (1871) and developed by Ludwig von Mises and F. A. Hayek. In both cases, the starting point is human action as a creative response to dissatisfaction. Mises formulates the axiom of human action in three essential components: (1) the perception of a state of dissatisfaction, (2) the conception of an end that is valued as more satisfactory, and (3) the identification and use of suitable means to achieve it (Mises, 2024). Need¹⁰ is therefore manifested in an *end* that the agent subjectively *values* according to its capacity to satisfy that need. To achieve that end, the agent employs the *means* they consider appropriate on the basis of their *utility*.

Democritus anticipates this structure by linking hardship to the search for useful solutions, explaining human progress as a response to scarcity and danger. As he states in one passage, ‘the animal knows what it needs and how much it needs; man, though he needs it, does not know it’ (198), suggesting that human rationality consists precisely in discovering the most appropriate means to overcome his ignorance and scarcity. In this way, the ‘discovery’ of information becomes the first step in the process of civilisation, fully in line with the entrepreneurial function described by Israel Kirzner (1973) as the ability to detect misalignments and opportunities. Likewise, the passage (81), which states that “continuous

by the agent, whereas in Escohotado’s work and in reference to the Greeks, the meaning is closer to ‘objective or predestined purpose in nature’ (classical teleology), so there is no contradiction whatsoever between our approaches.

¹⁰ Furthermore, the only fragment that survives from Leucippus of Miletus, Democritus’s teacher and the founder of atomism, refers to necessity: ‘Nothing happens without a reason; rather, everything happens for a reason and out of necessity’ (2).

hesitation leaves undertakings unfinished”, ties in perfectly with the Austrian idea that planning is not enough: it is necessary to act (cf. González González, 2015).

However, the profit derived from the entrepreneurial function can be achieved individually (Human Action) or through interaction with other actors or individuals (Exchange). This constitutes the second level of Austrian analysis, based on (1) the discovery of new information and (2) the transmission of information in the market. These two levels — and, as we shall see later, the third level too, relating to institutions — are already intuited in the thought of Democritus.

Cooperation thus emerges not from an innate goodness, but from an awareness of shared vulnerability. As Democritus points out: ‘when the strong defend the weak, render them a service or behave kindly towards them, men do not find themselves abandoned; they become companions to one another and defend one another’ (261). This cooperation based on mutual interest is the seed of spontaneous order: a process in which individuals, acting in accordance with their own particular ends, generate *institutions* that promote coexistence and the common good without having deliberately designed them.

Democritus also displays an early understanding of the relative and subjective nature of utility in a broad sense, an idea that forms one of the pillars of Austrian value theory. Thus, he maintains that ‘the most pleasant things become the most unpleasant when moderation is lacking’ (233), or that even the most useful goods can become harmful if abused: ‘Deep water is useful for many things, although it can become a hazard (...) however, a solution has been found: learning to swim’ (172). These statements reveal a dynamic view of value and utility, dependent on circumstances, experience and the agent’s capacity for learning—an insight clearly akin to the subjective theory of value developed by Menger and his successors, and essential to understanding evolutionary theory.

In short, Democritus conceives of human evolution as a process of learning in the face of scarcity, where cooperation and invention arise spontaneously from necessity¹¹. His thinking foreshadows,

¹¹ In this regard, many other passages are truly thought-provoking from an Austrian perspective: (2) “There are three consequences that follow from having good

in philosophical terms, the Austrian thesis according to which in d institutions—language, law or the market—are the unintended result of human action, but not of its design.

c. Morality and custom

Let us emphasise this idea that goodness and communal life do not derive from a natural moral essence, but from habits, discipline and expediency: ‘Goodness is due more to customs and discipline

judgement: calculating well, speaking well and *acting* as one ought”; (3) “...to give up and not try to go beyond one’s means, for a modest *undertaking* is safer than a grand one”; (7) “...everyone’s opinion is subject to chance”; (28) “if anyone were to wish to acquire a large tract of land, they would need considerable wealth to do so”; (31) “medicine cures the body’s ailments, but wisdom frees the soul from suffering”; (34) “man is a world in miniature”; (35) “If anyone pays heed to these maxims of mine with sound judgement, they will perform many *deeds* befitting a man of virtue rather than many petty ones”; (38) “It is noble to prevent another from committing injustice, but if this is not possible, it is also noble not to be an accomplice to injustice”; (39) “One must either be good, or imitate those who are”; (43) “Changing one’s mind regarding shameful deeds is the salvation of one’s life”; (46) “Greatness of soul is to bear error with equanimity”; (53) “There are many who, without having learnt the reason for things, live in accordance with reason”; (53b) “Many who commit the most shameful *actions* put forward the best arguments”; (55) “...one must strive through deeds and *actions*, not through words”; (83) “The cause of error is *ignorance* of what is best”; (94) “Small favours at the right moment prove to be the greatest for those who receive them”; (158) “Men’s thoughts are new every day”; (165) “Man is what we all know him to be”; (174) “He who feels satisfied and undertakes just and legitimate *actions* is content...”; (182) “noble undertakings are achieved through learning accompanied by effort...”; (226) “sincerity is inherent in freedom...”; (232) “the pleasures that are most frequently enjoyed are rarely those that give the greatest satisfaction”; (242) “more people become good through practice than by nature”; (245) “The laws would not prevent anyone from living according to their own discretion if one did not harm another”; (247) “...the whole world is the homeland of a good soul”; (265) “...it is not necessary for the person who returns money entrusted to them to be praised, but it is necessary for the person who does not return it to earn a bad reputation...”; (269) “Resolution is the beginning of a task, but its outcome lies in the hands of fortune”; (279) “...when shared, neither expenses cause pain nor profits bring joy to the same extent as when they belong to one person alone, but much less so”; (282) “the sensible use of wealth is beneficial for being free and useful to the community”; (283) “‘poverty’ and ‘wealth’ are terms denoting want and abundance...”; (289) “it is foolish not to submit to the necessities of life”. It is certainly striking how often certain expressions are repeated. For example, several other passages (63), (84), (177), (181), (190), (218), (250) mention ‘action’ or ‘undertaking’ (cf. Bernabé Pajares, 2024, pp. 338–373).

than to an innate disposition in human nature'. Ethics appears here as a social and historical construct, the result of collective agreements and learning, not of an innately good or bad human nature, nor of coercive imposition. For Democritus, there is no mystical or teleological 'natural law' that predates humankind. Morality arises from necessity and learning (evolution). However, once the individual, through discipline and reason ('legitimate' knowledge), understands which behaviours promote their ataraxia and harmonious coexistence, those values become absolute requirements for the wise person. In other words, the origin is subjective/evolutionary, but the resulting ethical norm is objective in its application towards achieving human excellence.

If we return to the second level of Austrian analysis, we see that exchange relationships represent the transition from individual human action to social interaction. Such relationships arise when a society already possesses the notion of private property and respect for it, which enables voluntary barter between individuals seeking mutual benefit. From isolated exchanges — such as, for example, that between a hunter and a weapons maker (cf. Martínez Meseguer, 2009, pp. 157ff) — spontaneous habits and norms develop that foster cooperation, reduce violence and strengthen social cohesion. This process is evolutionary and unconscious, the result of trial and error, whereby the most effective behaviours prevail and endure (Hayek, 1990).

Exchange is not an end in itself, but the result of the discovery of business opportunities (Menger, 1985). Each actor acts on the basis of limited and subjective information, but by detecting misalignments, they generate benefits and collective learning. These relationships reveal the three essential functions of the entrepreneur: (1) discovering new information; (2) transmitting it through the market; and, finally, (3) learning and adjusting behaviour in a coordinated manner. We are reaching a new stage in Austrian theory.

Over time, 'the set of customs regulating exchange activity takes on an increasingly defined character and respect for them becomes more widespread' (Martínez Meseguer, 2009, p. 159), which is perfectly reflected in the reflections of Democritus ('*customs and discipline*'). These new habits or practices begin to be adopted by the whole group, under threat of punishment or social

rejection (245). Thus, exchange gives rise—spontaneously and evolutionarily—to a more complex social institution: the market. And in this way, the development of language (another institution), mentioned in the quotation analysed, can also be explained. We are now immersed in the third level of Austrian analysis, which explains the emergence of *institutions*, understood as any established pattern of behaviour.

d. Freedom versus power

The sayings attributed to Democritus —‘*I would rather discover a causal link than be a client of the Persian emperor*’; ‘*I would rather live in poverty under a democracy than prosper under a tyrant*’— encapsulate an ethic of intellectual and political freedom. For Escohotado, this is in line with his own defence of individual autonomy in the face of systems of domination, be they political, religious or ideological (cf. Escohotado, 2014 ; Martín-Grande, 2024). Once again, this is entirely in keeping with the liberal philosophical tradition, particularly the Austrian school, which is openly opposed to all forms of planning or collective coercion (Rothbard, 2021).

As Raimondo Cubeddu rightly pointed out in *Atlas of Liberalism*, the liberal solution — as opposed to the established order — is based on placing human freedom at the centre of the social order and on asking how, from free individual actions, a spontaneous order can emerge that reduces uncertainty and helps people face the future (Cubeddu, 1999, pp. 27 and 31). Far from requiring central direction, such an order increases the dynamic efficiency of the social process through the decentralised coordination of dispersed knowledge (González González, 2015, p. 48; cf. Huerta de Soto, 2012b).

This interpretation ties in directly with the Austrian thesis that any form of coercive intervention disrupts spontaneous market processes, destroys information and impoverishes the institutional framework that underpins social cooperation (Hayek, 2017). Thus, in both Democritus and the Austrian tradition, we find a coherent defence of freedom as an ontological and epistemological principle: freedom not only enables the individual’s moral self-discovery, but also the generation of social knowledge through the

spontaneous order that emerges from unconstrained human interactions.

e. Summary: knowledge and autonomy

The final sentence accurately summarises the general thesis: *the greatest happiness does not come from material goods or transcendent promises, but from the combination of a love of knowledge and a love of autonomy*. In this synthesis, knowledge is presented not as an instrument of domination or prestige, but as an exercise in self-construction that requires freedom and, in turn, strengthens it.

This union between knowledge and autonomy constitutes a form of *generous self-interest*: cultivating oneself through knowledge, but in a way that broadens the possibilities of freedom for others. On a moral level, it entails the responsibility to think and act without delegating one's own judgement; on a social level, it translates into the free cooperation that makes spontaneous order possible. Thus, the individual who seeks to understand becomes, at the same time, an agent in a collective process of discovery.

This process of social coordination never stops or runs out of steam. The essential coordinating act — the creation and transmission of new information and business knowledge — is a cumulative : it alters the general perception of ends and means, and gives rise to the constant emergence of new imbalances that pave the way for new opportunities. This generates the dynamic process that drives civilisation's progress in the right direction. This is what Huerta de Soto refers to as the '*social Big Bang*', which enables the *unlimited* growth of knowledge and, with it, an increasingly balanced and harmonious development within the human limitations of each time and place (Huerta de Soto, 2024, pp. 78 and 79).

Escotado draws on the Greek philosopher as a mirror to highlight a humanism without teleology, in which cooperation arises from necessity, morality from custom, and the greater good from the fusion of curiosity and freedom. From Democritus to the Austrian tradition, the same intuition persists: only in freedom can knowledge flourish, and only through knowledge can freedom be sustained. Economics, ethics and philosophy thus

converge in a shared pedagogy of autonomy: an invitation to think for oneself, to act without coercion and to learn continually from the world and from others.

Conclusions

This research has made it possible to re-evaluate the figure of Democritus not only as an atomist physicist, but as an early, missing link in the genealogy of liberal thought and the evolutionary theory of institutions. By reinterpreting his work through the lens of the Austrian School, the following conclusions have been reached:

- (1) Firstly, it has been demonstrated that Democritus succeeded in overcoming the intellectual paralysis that the dichotomy between *nomos* (convention) and *physis* (nature) imposed on Classical Greece. In contrast to Platonic constructivism or static naturalism, the thinker from Abdera recognised that human institutions—language, laws and trade—are not the result of deliberate design or an immutable essence, but rather the outcome of an evolutionary process driven by necessity (*chreia*) and social learning. Whilst his contemporaries were caught up in the debate between arbitrary convention and immutable nature, he identified a third way, anticipating Menger's notion that social order is the result of human action, but not of human design.
- (2) Secondly, the concept of 'generous egoism', analysed through Escobar's interpretation, emerges as a direct precursor to Hayek's spontaneous order. The individual pursuit of *ataraxia* (peace of mind) does not lead to isolation, but rather to voluntary cooperation and respect for private property, the latter being understood not as a privilege, but as the necessary incentive for excellence and social harmony. Democritus understood that there is no conflict between self-interest and social harmony when the former is guided by reason and responsibility. It follows that the subjectivism in Democritus's theory of value

is fully consistent with an ethic of absolute values for the wise: whilst the value of goods depends on utility and individual desire, the ethical norm is the refined outcome of an evolutionary experience which the rational man accepts as an objective guide to his own happiness. In short, Democritus proposes a model of society in which freedom is not chaos, but a dynamic equilibrium arising from individual autonomy.

The main contribution of this work lies in filling an unexpected and surprising historiographical gap by seeking to demonstrate that the roots of freedom and an understanding of complex social processes were already present in ancient atomism. Further analysis is required to examine in greater depth the plausible (albeit limited) transmission of these atomist ideas and their possible influence on early Roman law, as well as to explore in greater depth the comparative study between Misesian *praxeology* and the Democritian notion. Ultimately, this study not only adds a name to the list of precursors of the Austrian tradition; it compels us to reconsider the origin of our ideas about freedom. Menger spoke of 'returning to the atom', and it is not without its poetic charm that one of his earliest predecessors might well have been the most illustrious of the Greek atomists.

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STABILIZATION PLANS: AN APPROACH FROM THE AUSTRIAN SCHOOL OF ECONOMICS

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Abstract: In economic literature, stabilization plans designed to overcome high inflation or hyperinflation are usually classified as either “orthodox,” with a monetarist origin, or “heterodox,” with a Keynesian approach, depending on the policy tools used. However, an alternative based on the principles of the Austrian School of Economics is often overlooked. This approach not only aligns with the monetary and exchange rate policy proposals of Austrian thinkers but also respects the fundamental principles of money as a key social institution. Moreover, it includes a proper theory of capital, which is lacking in both monetarist and Keynesian traditions.

Keywords: stabilization plan, exchange rate regime, interest rate, monetarism, Keynesianism, central bank, Austrian school of economics, real interest rate.

JEL Classification: E5; N1; N2.

I. INTRODUCTION

Every stabilization plan ultimately aims at achieving a sustained reduction in inflation. While the immediate cause is often attributed to the excessive creation of fiduciary media by governments—which erodes the purchasing power of the currency—this is usually just a symptom of a deeper issue: structural instability

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stemming from excessive state intervention in the economy. In this regard, high inflation may be persistent, but it is neither the only symptom nor exclusively caused by the monetization of fiscal deficits. Excessive government intervention creates distortions that affect multiple dimensions of economic life. Therefore, reducing inflation alone does not guarantee the success of the stabilization program if its underlying causes are not addressed. Otherwise, instability may shift to other key variables, such as domestic and foreign interest rates or the spreads between them, ultimately undermining the sustainability of the stabilization process. For example, when one considers that Argentina's national debt in 2001, when the country became insolvent, amounted to only 64% of GDP¹, it immediately becomes clear that, from the perspective of the Austrian School of Economics, the monetization of the deficit was not the sole or ultimate cause of the insolvency.

A government implements a stabilization plan in response to a destabilized economy, whose most visible manifestation is usually a high inflation rate, given that money—being the foremost social institution—is, in most (if not all) economies today, controlled by the State. However, the early success of some stabilization plans—reflected in a sharp drop in the inflation rate—is not a sufficient condition for their permanence. Such plans may still need to be abandoned prematurely or may eventually lead to a more severe macroeconomic crisis over time.

Under an orthodox, monetarist-style stabilization plan, an economy may succeed in reducing inflation by controlling the money supply—either through a monetary rule or by using the nominal exchange rate as an “anchor”—as a result of balancing the public accounts and eliminating the fiscal deficit. However, despite these efforts, internal and external tensions may still emerge, ultimately leading to the abandonment of the program.

Today, governments have a monopoly on money and control over monetary and financial institutions. Most of the time, these institutions follow rules based on political goals rather than the

¹ Krüger, Anne (2002): “Crisis Prevention and Resolution: Lessons from Argentina”. International Monetary Fund / National Bureau of Economic Research (NBER): Conference on „The Argentina Crisis“, Cambridge, 17. July 2002

spontaneous order of the market, which would otherwise guide the evolutionary development of such institutions. While it is reasonable to expect any stabilization plan to include a fiscal adjustment aimed at eliminating the monetization of the deficit, from the perspective of the Austrian School of Economics, this is not necessarily the sole or ultimate cause of the inflationary process.

From a monetarist and fiscalist viewpoint, achieving fiscal balance ensures that money is not excessively issued through deficit financing. However, economic instability may also arise from the excessive involvement of the state in various sectors of the economy. For instance, a balanced budget may be achieved through higher taxes, which does not necessarily reduce the state intervention that generates said instability. Furthermore, even if deficit monetization and monetary expansion are reduced, the effective demand for money may remain weak, especially when the national currency is imposed coercively through legal tender laws. In addition, a fractional reserve banking system can expand the supply of fiduciary media through credit that grows faster than deposits, contributing to financial instability. These situations can occur separately or at the same time. As a result, even if a stabilization plan seems successful at first, it may eventually fail when a new macroeconomic crisis emerges.

Thus, this paper is structured to characterize “orthodox” and “heterodox” stabilization plans, differentiating the elements used in each case in Chapter II. Chapter III will address the choice of different exchange rate regimes in these plans. Chapter IV will analyze the relationship between fiscal and monetary policy in an Austrian-style stabilization plan, followed by a discussion of the role of money in any stabilization plan in Chapter V, and finally, some conclusions will be outlined in Chapter VI.

II.

STABILIZATION PLANS: BETWEEN “ORTHODOXY” AND “HETERODOXY”

There is a certain consensus within the mainstream that inflation is caused by the monetization of government budget imbalances—in other words, fiscal deficits. Therefore, it is generally expected that

any stabilization plan should include a fiscal adjustment to remove this source of instability. History also shows that every relatively successful program eventually includes such an adjustment. However, from the perspective of the Austrian School of Economics, how this adjustment is achieved is not a trivial matter. It also matters for the sustainability and durability of the program.

Stabilization plans can be classified as orthodox or heterodox, depending on the economic policy instruments used in their implementation. In general terms, orthodox stabilization plans place emphasis on reducing the fiscal deficit and the resulting monetary issuance. Since the fiscal deficit is considered the cause of monetary expansion, it is assumed that correcting the government's budget imbalance will be enough to stop the expansion of the money supply.

Heterodox stabilization plans, on the other hand, are based on the premise that what they consider to be "inflationary inertia" must be eliminated and therefore include various additional economic policy instruments. However, this idea of inertia refers to the tendency of inflation to remain persistent once it has started. Yet this persistence may actually result from government objectives that seek to maintain high inflation. Thus, it is contradictory to treat inflationary inertia as an inherent characteristic of inflation when, in some cases, it is deliberately maintained as a policy goal, for example, to reduce the real value of public debt or to avoid a fiscal adjustment that could affect the government's voter base.

According to this view, eliminating the fiscal deficit and the resulting monetary expansion might not be enough to stabilize the economy. However, the measures proposed often involve various forms of intervention in the market, weakening its coordinating role. If government intervention itself is the cause of economic instability, then more intervention across different areas of the economy cannot be a sustainable solution.

The idea of "inertia" comes from applying tools from physics to the phenomenon of inflation, removing all human action from the analysis—even though human action is the very essence of economic science. Moreover, the concept of inertia captures the speed of a price index, making the price level and its variation the central focus of the inflation problem. This mainstream approach, which

uses mechanistic techniques from the exact sciences to study inflation, moves away from the role of human action as the key to understanding economic phenomena.

According to the heterodox view, eliminating the fiscal deficit—and therefore money issuance—may not be enough to reduce inflation. In their view, price and wage freezes are also necessary. This means companies are forced not to raise any prices, workers are told not to demand higher wages, certain prices considered “too low” by policymakers are adjusted, private contracts are interfered with, and public utility rates are frozen. In short, the price system is undermined through greater state intervention, disrupting its role as a coordinating mechanism for the economy. Supporters of these stabilization policies argue that orthodox plans based on monetarist and fiscal principles may take too long to bring inflation down, especially in highly indexed economies. They may even claim that a sharp exchange rate appreciation causes a recession.

Although such effects can occur during the implementation of stabilization plans, further intervention that disrupts the price system or violates private property by breaching contracts does not eliminate the destabilizing force that the state itself introduces by intervening in the economy.

Recommendations for these kinds of policies are usually based on empirical evidence or historical cases considered “successful.” But who defines success? Success is often defined by the policymakers themselves, based on how certain aggregate variables behave. But is violently and coercively breaking a private contract really a success for the people who signed it? Moreover, these policies often ignore the possibility that if they fail, many of the emergency measures will remain in place, causing greater long-term damage. A clear example is the many “temporary” emergency economic laws in our country that have remained in force for years through repeated extensions.

III. THE CHOICE OF EXCHANGE RATE REGIME

Another key difference between stabilization programs is the choice of exchange rate regime. The debate is usually limited to picking between a fixed or floating exchange rate. However, in a stabilization program, it's important to look more broadly at the entire monetary framework, where both monetary and exchange rate policies work together.²

Setting aside that broader discussion for the moment, in a fixed exchange rate regime, the exchange rate serves as the nominal anchor used to reduce inflation and influence agents' expectations. To maintain this fixed parity, money is issued only to the extent that the demand for domestic currency increases.

Others choose the money supply as the nominal anchor, in which case the exchange rate is allowed to float. A third option is inflation targeting. This approach has become popular among major central banks. Moreover, inflation targeting has not been successful in economies where the demand for domestic currency is structurally weak and the state plays a large role in the economy.

Therefore, for any stabilization plan to succeed, an increase in the demand for money is necessary. No matter how much fiscal and monetary discipline is imposed, if money demand does not recover, there will always be an excess money supply that either puts upward pressure on prices—through a loss of purchasing power of the currency—or on the exchange rate. This is the opposite of the case analyzed by Bagus (2021)³, who examines a deflationary process driven by an increase in cash balances. Thus, any decline in the demand for money results in a reduction in its purchasing power. Since no compensatory measures can be applied to

² Cavallo (1999) discusses different alternatives for emerging economies but does not mention options from the Austrian School of Economics. Mainly, the approach promoted by Professor Huerta de Soto, based on a 100% reserve banking system.

³ See Bagus (2021) for an in-depth analysis of the different types of money demand and their causes.

preserve the purchasing power of money, a fall in money demand will generate an inflationary process.

From this mainstream perspective, it is “expected” that, as inflation declines due to the stabilization plan, money demand will recover. Under a fixed exchange rate regime, any increase in money demand leads to an expansion of the monetary base, matched by a rise in international reserves.

Under a floating exchange rate regime, with the money supply fixed, the adjustment occurs through the nominal exchange rate. If money demand increases more than the supply, the nominal exchange rate will fall, causing real appreciation. However, if a limited expansion of the money supply is expected, it becomes harder to influence expectations, which may further weaken money demand.

The main problem with stabilization plans under a floating exchange rate regime is that if monetary policy is too tight, it can trigger a recession; if it is too loose, it may fail to stabilize the economy in the face of falling money demand and rising inflation expectations. (Braun & Llach, 2018).

IV.

AN ALTERNATIVE BASED ON AN “AUSTRIAN” APPROACH”

The analysis starts from the premise of an intervened economy. That is, an economy where the State, through the government, carries out public spending and also has a Central Bank that monopolizes the domestic legal tender currency and operates under a fractional reserve system.

Mainstream monetary theory, which was mainly designed to analyze the general price level, has contributed little to the study of inflation, overlooking the central insights of the Austrian School of Economics. Inflation primarily causes changes in relative prices, thus affecting the entire productive structure of the economy. Understanding this requires a proper theory of

capital, which is lacking in both Keynesian and monetarist theories.⁴

Following Ribas (2024), the study of inflation problems was largely relegated to countries formerly known as developing or underdeveloped. Structuralist theories emerged, viewing inflation as a result of underdevelopment and peripheral economies. Keynesianism won the political battle in the developed world, while in the developing world it evolved into a development theory under the banner of “structuralism,” intellectually driven in part by the Argentine economist Raúl Prebisch.

Following Ribas: “...There is no doubt that Keynesianism, which first won over the academic world, inevitably triumphed in the political arena.

Socialism and the concurrent expansion of the state over society characterized the contemporary political process, and Keynesianism provided the pseudo-scientific instrument of academic justification.

Gradually, monetarism — the theoretically opposing view that control of the money supply is the key economic determinant — began gaining ground in academia, based on studies from the University of Chicago and under the intellectual leadership of Milton Friedman...” Ribas (2024, p. 17)

Following the author, we can generally and politically state that Keynesian ideas lead to inflation, monetarism to stagflation, and in between lies the trapped choice between socialism and liberalism according to the “mainstream.”

Today, the developed world faces permanent stagflation, where Donald Trump’s extreme protectionist policies add to the Federal Reserve’s difficult balancing act as it tries to meet its goals. At best, the Fed aims for a “soft landing,” meaning a slowing economy (stagnation) with inflation above the target set by monetary authorities—an elegant way to describe stagflation!

Ribas (2024) analyzes the problem of inflation within a framework that seeks to determine the extent to which resources are transferred from the more productive sectors to the less

⁴ For a detailed treatment of the topic, see Chapter V of the book *Dinero, Crédito Bancario y Ciclos Económicos*, Huerta de Soto, (2011).

productive ones, and vice versa. When such intervention generates credit expansion, it also artificially alters interest rates, producing an unsustainable boom that will sooner or later result in an economic recession (Bagus, 2021). Credit expansion may even increase virtually without limit.⁵

Following Ribas (2024), from an economic perspective, inflation (understood as money issuance) is just a particular case within the broader concept of the arbitrary reallocation of resources, that is, the disregard for the market process as the best way to allocate resources, beyond its effects on the price level (price inflation). Therefore, we can characterize economies undergoing “stabilization plans” and suffering from high and persistent inflation as economies where the State, through coercive actions, arbitrarily reallocates resources.

In this sense, inflation becomes a tool or mechanism to carry out that transfer of resources—from productive sectors to unproductive ones. In other words, it is an instrument whose use is driven by an ideological view that trusts in the State and distrusts the market (Ribas, 2024).

These are opposing concepts, since the State operates in the economic sphere without a budget constraint. In this way, Ribas (2024) challenges a fundamental assumption of monetary analysis, whether from a Keynesian or monetarist perspective.

According to the author: “...That premise is that real government spending is defined a priori, and therefore inflation is simply one of several means to obtain the necessary resources. This is the implicit assumption behind the concept of the inflation tax, which could be calculated in advance in much the same way as revenue from a value-added tax or income tax is estimated...” (Ribas, 2024 p. 21)

Therefore, the inflation tax can be added to other taxes to cover the gap between government spending and revenue. From this perspective, the budget deficit becomes the main driver of inflation, and its elimination is the foundation of any anti-inflationary policy.

⁵ See Rothbard (2011).

It's correct to say that, according to this premise, the State manages to appropriate all the resources it intends to spend. While government spending itself may represent an inefficient allocation of productive resources, eliminating inflation by eliminating the fiscal deficit also removes the distortions that inflation causes in the rest of the economy.

But Ribas (2024, p.21) opposes this monetarist and fiscalist view: "...The previous conception, although it could be accepted as valid when the State's involvement in the economy is relatively limited and it restricts itself to providing certain services, loses its validity as the State expands its role in the economy..."

This point is central to the analysis of stabilization plans, as reducing inflation — and thus the fiscal deficit — is not sufficient to ensure the program's effectiveness. While it is clear that lowering inflation helps eliminate many of the distortions it creates in the economy, a stabilization plan can only be sustainable if the root causes of inflation are properly addressed.

Economic instability is caused by the "excessive" involvement of the state in the economy, which manifests as high and persistent inflation resulting from monetary disorder with fiscal origins. However, simply balancing the fiscal accounts and seeing a drop in inflation does not guarantee sustainability, especially if the imbalance caused by state intervention shifts to other areas or variables within the economy.

Ribas's (2024) approach rejects the previous premise and states the following:

- Government spending is projected in nominal terms, and its real value depends on monetary or exchange rate policy. In other words, it is not determined by the government; only the nominal spending is set.
- As this participation is variable, it does not depend on the inflation rate, and the inflation tax in real terms is indeterminate.
- Since the true transfer of resources from the private to the public sector (that is, from productive to unproductive sectors) results from the interaction between monetary and exchange rate policies, it cannot be said that any reduction in

the inflation rate improves the allocation of resources overall by reducing distortions within the private sector.

i) The Role of the State in Considering a Stabilization Plan

Traditional economic theory has considered the State as neutral regarding the productivity of the economy. Although some empirical studies point to a negative impact on productivity, generally the problems related to the State have been addressed within political philosophy, while economics has focused on what we call the market. In the mainstream view, the State is just another economic agent.⁶

However, following Ribas (2024, p.22), Keynes assigned the State an economic role in terms of objectives: "... In other words, it is different to say that government spending has a cost and is therefore economic, than to say that the State spends with the specific purpose of producing an economic result..."

Therefore, mainstream economic theory views fiscal and monetary policy as mere alternative tools to achieve different economic policy goals. Most economies in the world operate with this approach. This implies some implicit assumptions: that the real spending of the State is defined in advance and is fixed for the rest of the economy. Also, inflation is seen as a tax that replaces other taxes. In other words, the revenue from the inflation tax is the difference between the State's total real spending and the revenue from other taxes in real terms.

Given these assumptions, inflation was seen as an inefficient way for the State to raise resources. This view has another implicit assumption, according to Ribas: that the State's spending was a

⁶ See Ocampo (2018): "... Varios estudios empíricos confirman que, por encima de cierto nivel, el aumento del gasto público tiene efecto negativo sobre la productividad (Barro, 1991a; Barro, 1991b; Grier and Tullock, 1989; Hansson y Henrekson, 1994, y Tanzi y Zee, 1997; Mitchell, 2005). Estos resultados dependen en gran medida de la composición del gasto, de la transitoriedad del aumento y de su magnitud en relación a la economía (...) En cuanto a la relación entre gasto público y la tasa real de interés, la evidencia empírica también sugiere una fuerte relación positiva (Barro, 1986) ..."

small part of the economy, and that the State was generally a consumer of goods rather than a producer of goods and services.

As this stop being true, the other implicit assumptions also lose their validity. Following the author: "...That is, in a producing State where efficiency is confused with its function of providing employment, the entire decision-making process substantially changes the allocation of resources and the resulting productivity of the economic system..." (Ribas 2024, p.23)

Thus, Ribas changes these assumptions in his analysis by stating that public spending in real terms is endogenous to the system. In this way, the State's role in the economy results from monetary and exchange rate policies, which are the tools available to policy-makers in coordination with fiscal policy. This means that the nominal amount of spending and its variation are determined within the system.

However, Ribas (2024) assumes that it is not possible to conceive of a society without a State. Therefore, there is an optimal level of State involvement, beyond which the economy's productivity begins to decline.

Beyond whether it is possible to imagine a society without a State—even if that is not feasible at the moment—there is no such thing as an "optimal" level of State involvement. This is because State intervention in the market process causes harm by preventing the generation of new relevant information needed for the entrepreneurial function to operate.

What is true is that the less the State participates, the smaller the distortions and, therefore, the less noticeable its impact is to other economic actors. However, it is far from possible to determine an optimum level within the dynamics of markets and human action themselves.

It is true that the State makes spending decisions without budget constraints, distorting the market process and causing a poor allocation of resources. Therefore, following Ribas' argument, there is a process of economic deterioration as the State grows. However, it is important to highlight that this is not only due to the macroeconomic size of public spending and its financing difficulties, but also because it is based on the systematic exercise of institutional coercion over individuals (Huerta de Soto, 2010).

Following Huerta de Soto: “Only a proper understanding of the general theory of human action can clarify the unavoidable consequences that always arise when the free exercise of entrepreneurial action is forcibly prevented. The focus of our analysis is, therefore, the human being, understood as an acting and creative subject, who struggles throughout history to express and exercise their most intimate nature, free from the obstacles and coercions that are systematically imposed on them under the most varied and unjustified pretexts...”

It is important to understand the social disorder caused by statism. Focusing only on its effect on the productivity of the economic system, by preventing the proper functioning of the entrepreneurial role, coercively stops individuals—according to Huerta de Soto (2010, 2012)—from taking advantage of profit opportunities that arise from the imbalances generated in any dynamic market process. As a result, new information is not created, disrupting social coordination. This makes it impossible for the state, as the directing authority responsible for exercising institutional coercion, to coordinate society through its mandate because it lacks the information that is not produced due to its own coercion. In other words, the state lacks the information needed to coordinate precisely because its coercion prevents that information from being generated.⁷

Economies with persistent and high inflation over time, or those that have experienced hyperinflation, show the advance of statism in certain areas of economic life. This is what causes the destabilization, but orthodox stabilization programs ignore it by focusing only on the monetary aspect of the fiscal imbalance. This is what Ribas called “monetarismo cum estatismo”.⁸

So, for a stabilization plan to work well, it needs not only to fix the government budget but also to reduce public spending. This helps

⁷ On this topic, see the *Theory of Dynamic Efficiency* developed by Huerta de Soto (2004).

⁸ Ocampo (2018): “...Con este marco conceptual podemos reinterpretar la teoría de Ribas. Su punto central es que es un error combatir la inflación únicamente con una política monetaria contractiva, especialmente cuando el nivel del gasto público es elevado en relación al PBI. Esto es justamente lo que Ribas denominó “monetarismo cum estatismo...”

ease the pressure the State puts on the economy. This is important for the plan to last over time. Only through the free exercise of entrepreneurial function are the creative and productive forces of individuals unleashed, generating in society the necessary information to expand resource use and even create new means to achieve new ends.

Ribas (2024) argues that as the State's role in the economy increases, the average productivity of the economy decreases, which can be measured by the natural rate of interest (Wicksell). He also links this to the real market interest rate, explaining that as the State's participation grows, the real market interest rate tends to rise as well.

ii) Fiscal, Monetary, and Exchange Rate Policy

Starting from this analysis, the only variables the government can control are nominal variables, since real variables adjust accordingly. Thus, the government can set the nominal level of spending and the money supply, or the devaluation rate as part of exchange rate policy. However, this analysis does not distinguish between monetary policy and the monetary regime.

Moreover, it is not true that the government can fully determine the money supply in an economy, even under a monetary regime controlled by a Central Bank monopoly. This is especially the case in a fractional reserve system. While Central Bank has tools to influence the money supply, it does not control it directly, as it ultimately depends on decisions made by the public and banks—that is, on money demand. These issues are crucial when considering a successful stabilization plan.

What is novel in Ribas' analysis is that he treats the state's share of GDP as an endogenous variable, along with the natural rate of interest (which he links to the real market interest rate), the inflation rate, the nominal interest rate, the devaluation rate, and the real market rate. Meanwhile, the budget deficit is seen as one more way to create money in certain cases.

a) *Monetary Policy*

When analyzing the effects of increasing the money supply while keeping public spending constant (fiscal policy), monetary policy is determined. It is assumed that reducing the rate of money supply growth leads to a decrease in the nominal interest rate—not immediately, but as a consequence of lower inflation. Avoiding the mechanistic monetarist view, changes in relative prices occur, which affect the productive structure of the economy.

However, if public spending remains unchanged, the state's share in the economy increases. This reflects the state's need to finance its spending through higher taxes or debt, which raises its economic participation and, consequently, the real interest rate.

On the other hand, if the money supply growth rate increases, the long-term nominal interest rate rises due to higher inflation, which also distorts relative prices and the productive structure. This contradicts Keynes's mistaken idea that the interest rate is simply the cost of money. Moreover, Keynes did not properly define money demand, as it depends on the interest rate, which in turn depends on money demand in the money market, creating a circular indeterminacy.

Secondly, with increased money supply growth, the state's share in the economy decreases, and the real interest rate falls (also due to higher inflation).

b) *Fiscal Policy*

By reducing government spending while keeping the money supply growth constant, the nominal interest rate decreases, as does the state's share in the economy, and consequently, the real interest rate. Conversely, an increase in the growth rate of government spending leads to a rise in the nominal interest rate, the state's share, and the real interest rate.

Therefore, monetary and fiscal policies have opposite effects in the long run. Also, we must consider that money is never neutral, not even in the long run as monetarists claim, since, like Keynesians, they lack a proper theory of capital.

In the long run, monetary policy has effects on the real interest rate that move in the opposite direction, while fiscal policy causes effects that move in the same direction. According to Ribas (2024), this is due to the impact these policies have on the State's share of the economy and its effect on the natural rate of interest.

This point is crucial when considering the tools used in a stabilization plan for an economy with a fractional reserve banking system and, therefore, a central bank, which is implicit in Ribas's analysis.

Ultimately, a stabilization plan is a dynamic process of transformation whose final goal is to achieve a stable economic system by freeing the creative capacity of human beings. This process must be followed while restoring the proper functioning of the main economic institutions, among which money is the most important. Along the way, we need to think carefully about the best use of the available instruments within the current regime to navigate institutional changes that arise spontaneously in society. This should be done without falling into excessive "pragmatism," which, in seeking short-term results to meet often well-justified social demands, can interfere with government decision-making.

Ribas does not mention it explicitly, but these interventions by the State in managing money and spending—using fiscal and monetary policies as tools—affect the present and future decisions of economic agents by changing the interest rate, which in turn alters the productive structure of the economy. This issue has been extensively addressed by Austrian authors within the framework of the Austrian Business Cycle Theory (ABCT).⁹

In the context of a stabilization plan, one of the problems of inflation—besides causing distortions in relative prices that affect the productive structure of the economy, leading to bad investments and economic cycles—is that it transfers resources from the productive private sector to the unproductive State.

Following Ribas: "...Any attempt to fight inflation by causing a similar transfer is self-destructive, and the apparent stabilization

⁹ See Alonso Neira (2004, 2005), Garrison (2001), Hülsmann (2021) y Ravier (2010).

means an increasing statization of the economy..." (Ribas 2024, p. 29).

A stabilization plan can only be successful if it does not lead to an increasing statization of the economy. Lowering inflation is a necessary condition for success, but it is not enough. This surface result can hide underlying instability in other parts of the economy, which may cause the stabilization program to fail.

Thus, following Ribas: "...Only a reduction in the nominal rate of decrease in government spending can be accompanied by a reduction in the rate of monetary expansion that does not cause an increase in the real interest rate or an increase in the state's share of the economy. Monetary and fiscal policies are therefore relative concepts that complement each other in their effects, not alternative concepts..." (Ribas 2024, p. 29).

This highlights a significant difference in many stabilization programs that focus mainly on the fiscal deficit, including the "orthodox" programs of the International Monetary Fund. They take a fiscalist view of the problem, focusing only on the budget deficit and not on the relative size of public spending in the economy. In this way, with a mechanistic perspective, they treat a tax increase as equivalent to a spending cut in their policy designs. However, the expected results are not the same, since these measures affect the real interest rate differently.

Ribas defines it this way: "...The problem of the overall imbalance can be defined as the possibility of transferring more resources from the private sector to the public sector without causing the bankruptcy of the former. Or, in other words, without causing the real interest rate to rise above the natural interest rate (Wicksell), which is the average profitability of the economy. This is only possible in an economy with private capital, since the internal imbalance consists precisely in the increase of the debt-to-capital ratio as a consequence of the real interest rate rising above the natural rate..." (Ribas 2024, p. 29).

c) *The External Sector: Exchange Rate Policy*

In an open economy with a free foreign exchange market, the monetary authority can either fix the nominal exchange rate, which means the money supply is determined endogenously, or let the exchange rate float and control the money supply.

Although most central banks choose exchange rate flexibility and have shifted from targeting the money supply to controlling interest rates, for emerging economies like Argentina, stabilization plans focus on controlling the exchange rate.

This is due to the role of foreign currency as a store of value and unit of account, with the U.S. dollar serving as the reference for economic calculation. In this context, economic instability—driven by an increasing role of the state in the economy—is reflected in the deterioration of the national currency as a key institution for social coordination.

The real interest rate faced by producers of tradable goods can be considered an endogenous variable, with a direct relationship to the size of the public sector. At the same time, the public sector's share in the economy is the counterpart of changes in the real exchange rate. Among the key policy instruments are the rate of devaluation and the pace of nominal government spending growth.

Following Ribas, we can analyze changes in exchange rate and fiscal policies. Specifically, we can assess the impact of changes in the rate of devaluation while keeping the rate of nominal government spending expansion constant—what we refer to as “exchange rate policy.” Conversely, we can examine the effects of changes in the rate of expansion of government spending while holding the rate of devaluation constant—what we define as “fiscal policy.”

If the rate of devaluation is set below the rate of growth in government spending, the nominal interest rate will decline, but the share of the state in the economy will increase due to a fall in the real exchange rate and a rise in the real interest rate. This leads to a lower average inflation rate but also widens the gap between the prices of tradable and non-tradable goods, resulting in a shift in their relative prices.

The opposite effects would occur if the rate of devaluation exceeds the rate of growth in government spending. According to Ribas (2024), the nominal interest rate and the average inflation rate would rise, while the share of the state in the economy would decline due to an increase in the real exchange rate. Consequently, the real interest rate would fall.

However, this specific situation—unlike what Ribas suggests—would not achieve any stabilizing effect when the foreign currency functions not only as a store of value but also as a unit of account, due to prolonged periods of instability in the local currency. It is necessary to stabilize both the domestic currency and its relationship with the foreign currency. If inflation is driven by a higher rate of devaluation relative to the growth rate of public spending, this may lead to a decline in money demand, further fueling inflation. As a result, the real exchange rate is affected, altering the State's share in the economy.

Ribas states that the budget deficit, far from being the ultimate determinant of the inflation rate, only determines the expansion of domestic credit.¹⁰ In other words, it is the internal component of the total monetary expansion, while the external sector creates the difference needed to finance the average expansion.

Focusing on changes in fiscal policy while keeping exchange rate policy unchanged, we observe that a decrease in the growth rate of government spending relative to the devaluation rate leads to a reduction in the nominal interest rate, a decrease in the government's share of the economy through an increase in the real exchange rate, and therefore a reduction in the real interest rate (for producers of tradable goods). Additionally, the average inflation rate and the gap between the inflation rates of tradable goods and services (non-tradables) falls.

¹⁰ This arises from his critique of the monetary approach to the balance of payments, which considers money neutral in the long run:

$$\begin{aligned}\Delta R &= \Delta BM - \Delta CI \\ &= \Delta BM - \Delta DF - \Delta RB\end{aligned}$$

where R stands for international reserves, BM for the monetary base, CI for domestic credit, DF for the fiscal deficit, and RB for bank reserves at the central bank.

On the other hand, an increase in the growth rate of government spending causes a rise in the nominal interest rate, an increase in the government's share of the economy due to a fall in the real exchange rate, and a rise in the real interest rate (for producers of tradable goods). Additionally, there is an increase in the average inflation rate and a wider gap between the inflation rates of tradable goods and non-tradable goods.

Therefore, following Ribas (2024), we can observe that when government spending grows faster than the devaluation rate, there is a greater transfer of resources from the tradable goods sector to the government. This transfer is relative, not absolute, since it depends on the growth rates of both in nominal terms, and is also influenced by the size of the government and the tradable sector in the economy.

This transfer of resources will also lead to an increase in the demand for credit, which will necessarily cause a rise in the internal interest rate. As a result, the real interest rate will exceed the natural rate.

Following Ribas, this process cannot continue indefinitely or without time limits: "... If the real market interest rate remains above the natural rate, private companies will keep borrowing to compensate for the loss of profitability, starting an accumulative process that will lead to business bankruptcies..." (Ribas 2024, p. 34).

iii) *The Impact on the Balance of Payments*

It is also important to consider the impact on international accounts, as most of the crises in Argentina and the abandonment of stabilization plans have been linked to balance of payments crises.

The interest rate differential between the domestic and foreign rates, adjusted for risk, is considered to balance the capital account in the balance of payments. The state's share in the economy affects the real exchange rate, which in turn impacts on the current account. A higher risk-adjusted interest rate differential attracts capital inflows, while a low or appreciated real exchange rate leads to a current account deficit.

Therefore, if the devaluation rate falls below the rate of growth of government spending — with the devaluation rate being the main stabilization tool as a “exchange rate anchor” — it leads to a lower nominal interest rate, an increase in the state’s share of the economy due to a fall in the real exchange rate, and a rise in the real interest rate. This causes a decrease in the average inflation rate, but it widens the gap between the prices of tradable and non-tradable goods, resulting in a relative price change between these two types of goods.

The fall in the real exchange rate causes a growing deterioration in the current account of the balance of payments (trade balance, tourism, and services). At the same time, the internal imbalance in the interest rate leads to a persistent surplus in the capital account.

The balance of payments can be either positive or negative. Initially, it may show a surplus due to increased capital inflows if the stabilization program is credible. However, over time, it can turn into a deficit because of the combined effects of both the current and capital accounts, mainly driven by growing uncertainty. When the economy is open to capital movements, the real exchange rate is jointly determined by the interaction between the rate of government spending growth and the rate of devaluation.

The mechanism works as follows: if the rate of devaluation is higher than the rate of government spending growth, government spending decreases in real terms and the real exchange rate increases. If both grow at the same rate, government spending in real terms remains unchanged. However, if the rate of government spending growth is higher than the rate of devaluation, government spending increases in real terms.

Under a stabilization program, any alternative that involves government spending growing faster than the devaluation rate is therefore doomed to fail, as it leads to an increase in the state’s share of the economy, which causes instability. Moreover, programs where the devaluation rate exceeds the rate of government spending growth, although they reduce the state’s share, are unlikely to be sustainable as long as the foreign currency acts as the unit of account.

The only possible alternative that ensures a path toward stability is a program that reduces the size of the state by cutting

government spending. This allows for an exchange rate policy that acts as an anchor, where the devaluation rate is higher than the growth rate of spending, without negatively affecting the balance of payments or the real interest rate.

An increase in real government spending is only possible if the nominal exchange rate does not keep pace with the growth rate of the government's nominal spending. However, if the spending growth rate is such that the exchange rate cannot be stabilized, then a stabilization plan in economies like Argentina—where foreign currency serves as a store of value—is unlikely to be sustainable.

The effect on the real exchange rate will be greater the larger the government's share of GDP and the bigger the difference between the nominal spending growth rate and the devaluation rate.

If the observed inflation rate, measured as the average increase in the prices of a basket of goods and services, falls between the nominal spending growth rate and the devaluation rate, then the greater the appreciation of the real exchange rate, the lower the inflation caused by the increase in government spending. Following Ribas: "... the greater the transfer of real resources to the public sector (...) the greater the inflationary expropriation..."

At the same time, the real interest rate for producers of tradable goods will be higher, the greater the real exchange rate appreciation. Additionally, capital inflows will increase as the interest rate differential rises, which depends on the inflation rate and the expected devaluation rate.

If the devaluation rate decreases without changing the nominal spending growth rate, the real exchange rate appreciates, which negatively affects the current account. Although this can be temporarily offset by a capital account surplus, this situation is not sustainable for the private sector—especially for the tradable goods sector—because the difference between the local and international interest rates pushes the real interest rate away from the economy's natural rate.

As the deterioration of the current account becomes evident, pressure is placed on the capital account in the form of a higher interest rate differential to prevent reserve losses. This pressure increases due to the growing risk of devaluation. According to Ribas: "...the situation created forces a deadly choice between high

interest rates and the bankruptcy of private companies or the loss of reserves..." (Ribas 2024, p. 38).

a) The Interventionist Economy: Public Spending, Monetary Expansion, and Devaluation. An Alternative to Measure Distortion

The real problem of inflation, beyond the mere increase in prices, lies in its effects on the transfer of resources from the productive sector to the unproductive sector, as well as in the distortion of relative prices, thereby affecting the entire productive structure of the economy.¹¹

This problem does not depend solely on the fiscal deficit. The true inflation tax, measured through this transfer of resources, depends on the relationship between the growth rate of government spending and the rate of monetary expansion or devaluation.

The internal imbalance caused by this attempt to transfer resources, when interest rates are free, is reflected in those interest rates rather than in the inflation rate. Similarly, the external imbalance does not necessarily show up as changes in monetary reserves but rather in the interest rate differential.

In other words, this process implies a fundamental shift in the concept of external equilibrium, since it is no longer determined by the overall balance of payments situation—reflected in changes in international reserves—but by the interest rate differential. Thus, Ribas departs from the monetary approach to the balance of payments in his analysis. The greater the gap between the domestic real interest rate and the natural rate, the greater the internal and external imbalances, even if the reserve levels remain unchanged or even increase for a time.

However, unlike Ribas (2024), devaluation is not an effective tool to solve external imbalances in this context, because the foreign currency (the dollar) functions as the unit of account. Therefore, a stabilization plan should include reducing public

¹¹ See Huerta de Soto (2011).

spending—not the deficit per se—to avoid deterioration of the real exchange rate, while the exchange rate anchor stabilizes both the domestic and foreign unit of account. This reduction in the state's share of the economy decreases instability and provides greater predictability for economic calculation by achieving exchange rate stability, where the foreign currency serves as the unit of account.

Nevertheless, this would only be the first stage of a stabilization plan that properly uses the available tools under the current regimes.

V.

MONEY, INFLATION, AND THE INTEREST RATE AS MANIFESTATIONS OF INSTABILITY: THE MONETARY REGIME

It is difficult to guarantee long-term success without achieving monetary stability. In this regard, it is important to emphasize that a fractional reserve monetary system is inherently unstable. Moreover, it undermines private property by violating the basic principle of any capitalist system.¹²

This situation worsens in economies where the fiat currency imposed by the Central Bank coexists with a currency freely chosen by agents as a store of value and unit of account, for which the monetary authority does not act as the lender of last resort.

If legal tender is not granted to the currency freely demanded by individuals and the exclusive use of the national currency is imposed, the latter—lacking genuine demand as a store of value—structurally leads to a loss of purchasing power, even under conditions of fiscal and monetary discipline. This situation puts pressure on exchange rate and price stability. Furthermore, by failing to function effectively as a store of value, it hinders the development of the capital market, preventing savings from being channeled into productive investment.

On the other hand, the decline in the inflation rate during the initial phase of a stabilization plan may trigger a credit boom

¹² See Huerta de Soto (2011) y Hülsmann (2021).

driven by the financial intermediation inherent in the fractional reserve system. This results in an unsustainable and artificial economic expansion that ultimately undermines the stabilization process.

Moreover, in the initial phase, under a fractional reserve system, the higher the inflation rate, the greater the intermediation margin that allows banks to maintain their profitability levels. While the real interest rate remains negative, inflation itself erodes the cost for borrowers. However, this situation reverses as the stabilization plan succeeds, inflation falls, and the real interest rate turns positive. If policy mismanagement leads to a further increase in the real interest rate, the fractional reserve system exacerbates the problem.¹³ Following Hülsmann: "...it is true that fractional-reserve banking protected by legal tender laws represents a race toward the abyss...() as with every form of inflation, fractional-reserve banking (and credit money), supported by legal tender privileges, entails an illegitimate redistribution of benefits, and since it generates far more inflation than any other institutional arrangement..." (Hülsmann 2021, p. 136 y 137).

VI. CONCLUSIONS

Therefore, a successful stabilization plan cannot be assessed solely by the initial reduction in the inflation rate. For it to be sustainable, a necessary condition is the reduction of the State's involvement in the economy, as it is a primary source of instability. Although every program requires a fiscal adjustment, this does not necessarily imply that stability will be achieved through deficit reduction

¹³ An interesting case is the experience of the Convertibility regime in Argentina during the 1990s. Due to space constraints, which would warrant a more detailed study, I will only mention that the plan can be considered successful in terms of stabilizing inflation in Argentina for a decade. However, it did not prove sustainable, and among the causes often overlooked are the failure to reduce government spending as a source of imbalance and, above all, the existence of a fractional-reserve banking system in an economy that allowed convertibility between its currency and the U.S. dollar but lacked a lender of last resort.

or a balanced budget alone. In this regard, a fiscal policy that increases government spending while contracting the money supply will only lead to the bankruptcy of the private sector due to the expanding role of the State.

Furthermore, programs based on exchange rate policy, using the exchange rate as a nominal anchor, must implement a sufficiently contractionary fiscal adjustment to avoid a real exchange rate appreciation that would deteriorate the current account and require high interest rates to compensate via capital account. If this scenario materializes, the resulting resource transfer from the private to the public sector will make the stabilization program unsustainable.

Programs that also move in the right direction by seeking to reform the monetary regime—granting greater freedom in the use and choice of currency, recognizing that money is the ultimate social institution enabling social cooperation—must address the urgent need to eliminate the fractional reserve banking system.

The fractional reserve system, beyond being a source of instability, guarantees the existence of a central bank and thereby establishes monetary statism, which ultimately undermines the stability of an economy that the stabilization program seeks to correct, while discouraging entrepreneurial function, the primary driver of human progress in society.

Any stabilization plan must not only reduce inflation but also lay the foundations for a process of sustained growth. Such a goal is unlikely to be achieved without unleashing the creative potential that drives entrepreneurial function, within an institutional framework that upholds private property as the principal guarantor of a capitalist system. This—and not another—must be the guiding objective of any stabilization plan.

Conflict of interest

The author declares that he has no conflict of interest.

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THEORY OF TEMPORAL IMPUTATION A Praxeological Reconstruction of Value, Capital and Price

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Abstract: This article proposes a praxeological reconstruction of economic theory based on the temporal structure of human action. Its central thesis is that value does not derive from the physical properties of goods or from the productive past, but rather from the allocation that the agent makes from the future end to the present means. Building on this relationship, the article examines time preference, cost, capital, interest and price as categories derived from the intertemporal coordination of individual plans. The paper distinguishes between physical time and praxeological time, engages with the Austrian tradition of capital and the literature on radical uncertainty, and specifies that indirect production only increases productivity when the means are entrepreneurially coordinated with valued future ends. The contribution lies in systematising economics as the science of purpose-oriented human time.

Keywords: temporal imputation; human action; time preference; capital; Austrian School.

JEL codes: B13; B53; D46; E22; E43.

1. Introduction

Economic theory arises when human action is regarded not as a physical event, but as intentional behaviour aimed at replacing a

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present situation with a future state deemed preferable. The agent does not merely move within the world: they plan, compare, hope, forgo and coordinate scarce resources in view of ends that do not yet exist. Consequently, time is not an element external to the economy, nor a chronological variable added from outside to an already constructed theory. Time constitutes the very form of action, because every action presupposes a distance between the present state that one wishes to move beyond and the future state that one wishes to attain.

The tradition of the Austrian School has consistently recognised this temporal dimension. Menger's subjective theory of value showed that economic goods derive their significance from the causal relationship that the agent establishes between the available means and the satisfaction of their needs (Menger, 1871). Böhm-Bawerk placed time at the centre of the theory of capital and interest by analysing indirect production and the differential valuation between present and future goods (Böhm-Bawerk, 1884; 1889). Mises formulated praxeology as a general science of human action and derived from it time preference as a category inseparable from action (Mises, 1949). Hayek, for his part, developed the idea that production and capital can only be understood as structures for the intertemporal coordination of dispersed plans (Hayek, 1937; 1941; 1945).

This article is part of that tradition, but proposes a specific formulation: the theory of temporal imputation. Its central thesis can be expressed as follows: economic value does not flow from the past to the present, nor does it derive from the physical properties of goods or from the labour incorporated in them, but rather flows from the future end towards the present means. The agent anticipates a desired future state and, on the basis of that anticipation, imputes value to the means they consider suitable for achieving it. The valued future does not causally produce the present, but it orders it praxeologically. In this sense, temporal imputation denotes the logical link through which future ends confer economic meaning on present means.

This formulation allows for a unified reconstruction of some of the fundamental categories of economic theory: value, cost, time preference, capital, interest and price. Value appears as value imputed from an end; cost as a temporal sacrifice of incompatible

courses of action; capital as a temporal order of means; interest as an expression of the value difference between present and future availability; and price as the result of the convergence of subjective temporal valuations in a market process. Economics, understood in this way, does not study isolated objects or static quantities, but rather temporal processes of goal-oriented action.

The article also addresses a significant difficulty. The relationship between time, ignorance and uncertainty has been examined by authors who have emphasised the impossibility of reducing human action to probabilistic calculation or to maximisation under given data. O'Driscoll and Rizzo developed a theory of the market as a temporal process under ignorance and real change (O'Driscoll & Rizzo, 1985). Kay and King, from a different perspective, have emphasised the relevance of radical uncertainty for understanding human action in contexts that cannot be reduced to known probability distributions (Kay & King, 2020). The theory proposed here does not seek to deny these developments, but rather to show that the temporal dimension can be situated at a more fundamental level: that of the praxeological imputation linking present means and future ends.

The contribution of this article does not, therefore, consist simply in asserting that time matters. That assertion is already present in the Austrian tradition and in contemporary literature on uncertainty. The contribution consists in maintaining that the time of action is not merely an additional dimension amongst others, but rather the formal principle that enables us to explain the unity of the main economic categories. Economics is the science of human action; and human action, being oriented towards future ends, is always temporal. Economic analysis must therefore begin with the temporal structure of action.

The paper is organised as follows. Section 2 situates the proposal within the Austrian literature and sets out its method. Section 3 distinguishes between physical time and praxeological time. Section 4 formulates the theory of the temporal imputation of value. Section 5 examines its implications for time preference, capital and interest. Section 6 analyses price as the temporal coordination of subjective valuations. Section 7 examines temporal confidence under radical uncertainty. Section 8 discusses the

contribution, limitations and main objections, including the criticism that not all accumulation of indirect means automatically leads to greater productivity. Section 9 presents the conclusions.

2. Methodology and Position within the Austrian Literature

2.1. *Human action and praxeology*

The method employed is praxeological. This means that the analysis does not start from aggregate data, statistical functions or equilibrium models, but from the logical implications of the fact that man acts. Human action is not merely one piece of empirical data amongst others, but the condition from which data can acquire economic significance. To deny that man acts is to perform an act of denial, that is, an action; therefore, the axiom of action possesses a performatively undeniable structure (Mises, 1949).

Praxeology does not seek to describe all the psychological aspects of behaviour. It does not study specific preferences, inner motives or the particular mental states of the agent. Its object is more formal: the categories that are necessarily involved in every action. Wherever there is action, there is an agent, a present situation deemed unsatisfactory, a future end deemed preferable, means deemed suitable, uncertainty regarding the outcome, and the renunciation of incompatible alternatives. These categories are not added to the action from outside; they are already contained within the very concept of acting.

This perspective makes it possible to avoid two forms of reductionism. The first is physicalist reductionism, which interprets economics as if it were the study of relationships between things. From a praxeological point of view, no object is economic in and of itself. A good is not such because of its material composition, but because an agent incorporates it into a plan. The second is psychologistic reductionism, which confuses valuation with a purely internal subjective state. Valuation is not a measurable psychological datum, but a relationship manifested in action. The agent demonstrates that they prefer one course of action to another by allocating scarce resources over time.

The methodological consequence is decisive: economic time cannot be reduced to physical time. The clock measures the homogeneous succession of moments, but action structures time in accordance with ends. For the agent, a minute's wait, a year's investment or a decade of productive maturation are not merely equivalent physical units. They are positions within a plan. Economics, as the science of action, must study this structure of positions, not merely the quantitative duration that accompanies them.

2.2. *Imputation, capital and temporality*

The theory of value imputation emerges in the Austrian tradition as a development of the subjective theory of value. Menger showed that the value of higher-order goods depends on the value attributed to the lower-order goods that contribute to their production. The causal direction of physical production runs from the means to the product, but the economic direction of valuation runs from the end to the means (Menger, 1871). Imputation is therefore not a material transfer of properties, but a logical relationship between a valued outcome and the means deemed necessary to achieve it.

Böhm-Bawerk expanded on this insight by linking capital, indirect production and time. Indirect methods of production allow, under certain conditions, for more productive outcomes than direct methods; but they require waiting, saving and the coordination of successive stages (Böhm-Bawerk, 1889). Capital thus ceases to be a mere mass of physical objects. It is a temporal structure of heterogeneous goods organised towards future ends. This idea would later be central to Hayek, for whom the productive structure can only be understood as an intertemporal order of complementary and revisable plans (Hayek, 1941).

The theory of temporal imputation retains these elements, but formulates them from the perspective of the agent who directs present means towards future ends. Imputation is not limited to explaining the value of capital goods within production; it explains the general economic structure of action. Every means derives its meaning from an end. Every cost arises from a temporary sacrifice. Every preference involves a comparison between present

availability and future satisfaction. All capital is a means situated within a sequence. Every price encapsulates temporal valuations found in exchange.

This broadening does not break with the Austrian tradition, but rather seeks to make explicit its unifying principle. If value is subjective, and if economic subjectivity manifests itself in goal-oriented action, then value is necessarily temporal. There is no economic valuation outside a horizon of action. The agent does not value things in the abstract; they value the contribution that certain means can make to the realisation of future ends.

2.3. Time, ignorance and radical uncertainty

The economics of time cannot be separated from ignorance. The future towards which action is directed is not a given fact, but an open realm. If the future were entirely predetermined, action would lose its specifically human meaning: there would be no discovery, error, entrepreneurial creativity or coordination of plans. Uncertainty is not an accidental imperfection of the market, but a constitutive condition of action.

O'Driscoll and Rizzo emphasised that real time implies genuine change and that market processes cannot be reduced to a sequence of instantaneous equilibria. The market is not a snapshot of resource allocations, but a dynamic coordination of plans under conditions of ignorance, revision and learning (O'Driscoll & Rizzo, 1985). Lachmann, from another Austrian perspective, emphasised the heterogeneity of capital and the role of expectations in the coordination of productive structures (Lachmann, 1956). Kirzner developed the concept of the entrepreneurial function as the discovery of previously unrecognised opportunities (Kirzner, 1973).

Contemporary literature on radical uncertainty reinforces this line of argument. Kay and King argue that many relevant human actions cannot be treated as problems of probabilistic calculation, because the agent does not know all possible states of the world nor can they assign meaningful probabilities to each of them (Kay & King, 2020). Although their approach is not strictly praxeological, it

converges with an essential idea: the human future cannot be reduced to a table of calculable outcomes.

The theory of temporal imputation takes this uncertainty as a given. The actor imputes value from future ends that do not yet exist and which may not come to pass. Consequently, imputation is always entrepreneurial in the broad sense: every actor interprets the future and organises present means under conditions of ignorance. Entrepreneurship here does not refer to a particular profession, but to the universal function of acting under uncertainty, anticipating ends and reorganising means (Huerta de Soto, 1992).

2.4. Originality and scope of the proposal

The originality of the theory of temporal imputation is not to be found in the isolated assertion that value is subjective, nor in the general idea that time matters, nor in the identification of uncertainty as an economic problem. These elements already form part of the Austrian tradition and the literature on market processes. The originality lies in the systematisation: all these categories are interpreted as manifestations of a single temporal structure of action.

Temporal imputation makes it possible to explain why the future can guide the present without reversing physical causality. Physically, present means precede future results. Praxeologically, the anticipated future end confers meaning upon the present means. This dual direction is central to avoiding confusion: it is not claimed that the future materially causes the present, but rather that the future end, insofar as it is anticipated by the agent, logically orders the use of the means.

The scope of this proposal is theoretical and categorical. It is not a question of constructing an empirical predictive model or a quantitative theory of prices. It is a question of clarifying the logical foundation of economic categories from the perspective of temporal action. For this reason, the theses of this article should be read as praxeological propositions: they indicate what is implied by action as action, not what occurs in each specific historical case with a measurable intensity known in advance.

This clarification is important to avoid an overly broad interpretation of the theory. Indirect production, for example, is not automatically more productive simply because it accumulates more means or involves more stages. It can only be more productive when the structure of means is correctly coordinated with valued future ends. The theory of temporal imputation does not equate productivity with physical accumulation, but rather with the entrepreneurial coordination of heterogeneous means over time.

3. Physical time and praxeological time

3.1. *The homogeneous nature of physical time*

Physical time is homogeneous, quantitative and measurable. It can be divided into equivalent units and represented by clocks, calendars or time series. From the perspective of the natural sciences, this conception is indispensable: it allows us to measure duration, speed, frequency and succession. However, its usefulness must not lead us to confuse physical time with the time relevant to economics.

In a physical theory, two intervals of equal duration are equivalent in terms of duration. In human action, however, two physically equal intervals may have completely different economic meanings. An hour's wait before consuming an urgent good is not praxeologically equivalent to an hour's maturation of a long-term investment. The clock measures the same thing; the action does not mean the same thing. The difference arises because the time of the action is not merely duration, but a position within a project.

Physical time is indifferent to ends. It passes uniformly even if no agent values it, awaits it or organises it. Praxeological time, by contrast, exists for the economy only to the extent that the agent structures it through ends and means. What is decisive is not that an action lasts a certain number of chronological units, but that the agent must traverse a distance between intention and realisation. That distance can be measured physically, but its economic significance is not exhausted by the measurement.

Confusion between these two levels leads to analytical errors. If economic time is treated as a purely physical variable, time preference may appear to be a psychological anomaly, interest a contingent institutional price, and capital a technical accumulation of goods. If, on the other hand, it is considered praxeologically, time preference, interest and capital appear as categories that express the temporal structure of action.

3.2. *The teleological nature of praxeological time*

Praxeological time is the time of purpose-directed action. It is not a substance distinct from physical time, but rather the meaning that succession acquires when an agent integrates it into a plan. Action does not unfold in a neutral flow of moments, but in an order of relevance: before and after, means and end, expectation and realisation, sacrifice and satisfaction. These relationships are not physical in the strict sense, but they are indispensable for understanding the economy.

To act is to introduce a difference between the present and the future. The present is the situation from which the agent sets out; the future is the state the agent hopes to attain. Between the two lie means, stages, uncertainty, costs and revisions. The future is not simply what will happen next; it is that towards which the agent directs their conduct. In this sense, praxeological time is inseparable from teleology.

Teleology does not imply an arbitrary psychological explanation. It is not a matter of reconstructing all the subject's inner motives, but of recognising that action has a means-end structure. The economist does not need to know the ultimate reason why a person desires a particular end in order to understand that, if they act, they organise means in accordance with that end. The formal structure of action is sufficient to derive the fundamental economic categories.

Praxeological time is also qualitative. The stages of a process are not interchangeable because they occupy distinct positions within the plan. A resource available at the start of a production chain does not perform the same function as one available at the

end. A promise of future delivery does not have the same meaning as present availability. An investment requiring ten years is not simply a sum of years; it is a structure of waiting, coordination and exposure to uncertainty.

3.3. Irreversibility, waiting and the structure of action

All action involves irreversibility. The actor may correct, abandon or modify their plan, but they cannot reclaim time already spent as if it had not been spent. This irreversibility turns action into a sacrifice. To act in one way is to rule out other incompatible courses of action. The economic cost arises not only from the scarcity of physical goods, but from the fact that the actor's time cannot be devoted simultaneously to all possibilities.

Waiting is the praxeological form of the interval between intention and realisation. It should not necessarily be understood as psychological suffering. Waiting may be accepted, desired or even enjoyed; but, as an economic category, it indicates that the result is not immediately available. Where there is action, there is a 'not yet'. The agent is faced with a gap that must be bridged by means of ordered actions.

The temporal structure of action can be described in terms of three minimal elements. First, a future end that guides the process. Second, present or relatively near-term means that the agent considers appropriate. Third, a temporal gap characterised by uncertainty. If the end is missing, there is no direction; if the means are missing, there is no action but mere aspiration; if there is no temporal distance, there is no process to organise. Economics begins where these three elements come together.

This structure helps us understand why time is not a secondary category. Value, cost, capital and price are not phenomena occurring within a neutral time-frame; they are ways of organising the time of action. Value imputes meaning to the means from the end; cost expresses the renunciation of incompatible possibilities; capital extends action in stages; price coordinates temporal plans amongst actors. Economic theory is, in this sense, a praxeological theory of temporality.

4. The temporal imputation of value

4.1. *From the future end to the present means*

Temporal imputation denotes the logical link by which the agent attributes value to present means in relation to a future end. A means has no economic value in itself. It acquires value because the agent considers it capable of contributing to the realisation of a valued future state. Value is not found in the object as a physical property, nor does it derive mechanically from past effort. It arises from the relationship between an anticipated end and a means employed in the action.

This thesis does not deny technical causality. To produce a table, grow wheat or manufacture a tool, the physical means must act causally before the product comes into being. But the economic causality of valuation works in the opposite direction. The agent values the product or the expected satisfaction and, from there, values the means they consider necessary. Wood, labour, machinery or production time derive their economic significance from the end that is intended to be achieved.

The direction of imputation is, therefore, praxeological rather than chronological. The future end does not yet exist as a material fact, but it exists as the object of anticipated valuation. This anticipation does not physically cause the present; it orders it. The agent acts now because they attribute meaning to a possible future. Without this anticipation, the means would be mere objects or capacities without any defined economic relevance.

The theory of temporal imputation allows us to formulate a precise critique of objective theories of value. If value depended on the labour embodied, the physical quantity of matter, or some objective property of the good, it would be impossible to explain why the same object has different values for different agents, or why value changes when ends change. The praxeological explanation is more fundamental: goods have value because they are integrated into goal-oriented plans. Value is a relationship of temporal imputation.

4.2. *Value, cost and scale of priorities*

Value is inseparable from action. The agent does not first assess everything in the abstract and then act; in acting, they reveal an order of priority. This order should not be conceived as a psychological list pre-written in the mind. It is the structure of the action itself, considered from the point of view of preference. Employing a means for an end shows that, at that moment, that course of action has been preferred over incompatible alternatives.

Cost thus appears as the flip side of value. By attributing value to an end and employing means to achieve it, the agent forgoes other ends that those same means might have served. Cost is not simply a monetary outlay, nor suffering, nor an objective quantity. It is the most highly valued alternative that is abandoned when acting. Given that action unfolds over time and time is irreversible, cost has a temporal structure: it is the loss of a possibility that cannot be realised simultaneously.

The scale of priorities manifests itself temporally. The agent does not rank ends from an absolute and eternal standpoint, but within the context of a specific situation, with specific means and under specific uncertainty. A distant end may justify a present sacrifice if its imputed value is sufficient. An immediate end may take precedence over a more distant one if urgency or uncertainty alters the valuation. The order of action is always a temporal order of ends.

This relationship between value and cost shows that temporal imputation is not a partial theory of capital, but a general theory of economic action. Every act of valuation implies an orientation towards the future and a sacrifice in the present. Consequently, economics cannot understand value without understanding the temporality that makes it possible.

4.3. *Time-based allocation and the entrepreneurial function*

Temporal imputation is necessarily entrepreneurial in the broadest sense. The agent does not know the future; he interprets it. When employing present means, he does not apply a mechanical

calculation based on complete data, but rather formulates a conjecture about the relationship between means and ends. This conjecture may be correct or erroneous. Economic error is, to a large extent, an error of temporal imputation: the agent has attributed to certain means a capacity to realise ends which subsequently proves not to be the case.

The entrepreneurial function consists of discovering, anticipating and reorganising relationships between present means and future ends. In Kirzner's theory, the entrepreneur discerns opportunities that others have not seen and coordinates resources around them (Kirzner, 1973). From the perspective of time allocation, this entrepreneurial insight is a form of interpreting the future. The entrepreneur does not merely discover price differences; he discovers possible temporal structures of action.

Within this framework, profit and loss can be interpreted as the results of correct or erroneous temporal allocations. If the actor coordinates present means towards future ends that others come to value sufficiently, they make a profit. If they organise means towards ends that do not materialise or are not valued, they incur a loss. The market does not eliminate uncertainty; it subjects it to a process of testing, correction and learning.

This perspective allows us to integrate the theory of subjective value with the theory of the market process. Value is not an isolated fact that precedes the market as complete information. It is formed, revised and corrected within the very process of coordination. Temporal allocation operates within each agent, but its results are socially tested through exchange, prices, profits and losses. Thus, the economy appears as a continuous process of revising allocations under uncertainty.

5. Time preference, capital and interest

5.1. *Time preference as a category of action*

Time preference expresses the differential valuation between present and future goods. All other things being equal, the agent prefers a satisfaction available now to an identical satisfaction

available later. This proposition should not be interpreted as a psychological observation about impatience, but rather as a logical implication of action. The agent acts in the present to achieve future ends; therefore, the present availability of means has a function that future availability does not possess.

Mises argued that time preference is inseparable from human action and that original interest does not arise from an institutional convention, but from the value difference between the present and the future (Mises, 1949). Rothbard developed this idea by linking time preference, saving, investment and the structure of production (Rothbard, 1962). The theory of temporal imputation confirms this approach: if the future end imputes value to present means, the temporal distance between the means and the end must be valued by the agent.

Time preference does not mean that the agent always chooses immediate consumption. They may prefer to save, invest or wait. But even when they wait, they do so because they consider that the future end justifies the present sacrifice. Waiting requires a value-based compensation. The agent agrees to postpone satisfaction only if the expected outcome possesses, for them, sufficient value in relation to the present means sacrificed.

Nor should time preference be confused with a numerical rate predetermined in advance. Market interest rates express specific monetary and institutional relationships; time preference, by contrast, is a more fundamental category. Prior to any credit market, action implies a difference between present and future availability. The market does not create time preference; it reveals it, coordinates it and transforms it into observable exchange relationships.

5.2. *Capital as a temporal order of means*

Capital is not a homogeneous mass of physical goods. It is a temporal order of heterogeneous means integrated into productive processes. A machine, a tool, a raw material or a facility is not capital by virtue of its mere materiality, but by virtue of its place within a production plan oriented towards future ends. The same object

may be capital in one plan, a consumer good in another, or a mere thing of no economic significance in yet another context.

Austrian capital theory has emphasised the heterogeneity and complementarity of capital goods. Hayek stressed that the productive structure consists of temporally coordinated stages and that the economic problem is not merely to accumulate capital, but to coordinate it correctly (Hayek, 1941). Lachmann emphasised that capital is a structure of complementary goods whose coherence depends on plans and expectations (Lachmann, 1956).

From the perspective of temporal allocation, capital appears as time organised in the form of means. Each capital good represents a stage, an anticipation and a wait. Its value depends on the future end to which it is linked and on the coherence of the productive sequence into which it is embedded. For this reason, capital cannot be adequately understood through homogeneous aggregates. Physically aggregating capital goods is not the same as constructing a viable productive structure.

Capital is, therefore, a praxeological category rather than a technical one. Technique indicates possible physical relationships between inputs and outputs; praxeology explains why certain inputs are selected, combined and sequenced over time by an agent. A capital structure only exists economically when the means are integrated into a plan oriented towards valued ends.

5.3. Temporal productivity and the limits of indirect production

Indirect production can increase productivity because it allows for the use of stages, tools and capital goods that expand the capacity to achieve future ends. However, this proposition requires a crucial clarification: the greater productivity of indirect methods is not an automatic property of any accumulation of means, but a praxeological possibility conditioned by sound managerial coordination between present means, productive stages and valued future ends.

The accumulation of indirect means may be excessive, incoherent or misdirected. A firm may acquire machines that do not complement one another, prolong processes that do not add value, invest

in stages that do not meet future demand, or tie up resources in projects that are never completed. In such cases, there is no temporal productivity, but rather entrepreneurial error. The mere length of the production process does not guarantee its superiority.

This clarification addresses a well-known objection to certain simplified formulations of the Austrian theory of capital. Blaug pointed out that it cannot simply be assumed that greater roundaboutness necessarily leads to greater productivity, as the relationship between temporal structure and outcome depends on specific technical and economic conditions (Blaug, 1997). The theory of temporal imputation accepts this caveat. It does not equate productivity with duration, but rather with coordination.

Temporal productivity must therefore be understood as the capacity of a structure of means to bring the agent closer to more highly valued future ends through an appropriate temporal organisation. A longer structure may be superior if it enables outcomes that the direct method would not have achieved. But it may be inferior if it adds unnecessary stages, excessive costs or a lack of coordination. The economic criterion is not the physical length of the process, but the correct allocation between means and ends.

This interpretation preserves the core of Austrian theory without turning it into an automatic technical law. Indirect production is a possibility made possible by the human capacity to anticipate, save and invest; it is not a mechanical guarantee. Its success depends on the entrepreneurial function, the coherence of the capital structure, the complementarity of the means, and the future valuation of the product.

5.4. *Original interest and intertemporal coordination*

Original interest expresses the difference between the valuation of present goods and future goods. It does not arise primarily from money, from lending, or from the physical productivity of capital. These phenomena may alter its concrete manifestations, but not its root. The root lies in time preference: a good available now allows one to act now, whilst a future good requires waiting and exposure to uncertainty.

When an agent forgoes present goods to obtain future goods, they must consider whether future satisfaction compensates for the wait. This difference in valuation forms the basis of interest. In a monetary economy with a credit market, this relationship is expressed through monetary rates; yet the underlying concept predates the credit market. Even Robinson Crusoe, in the classic example, faces the choice between consuming today or investing time and resources to obtain more tomorrow (Rothbard, 1962; Huerta de Soto, 1998).

Interest fulfils a function of intertemporal coordination. It links saving, investment and the productive structure. A lower time preference allows present resources to be freed up for longer-term processes; a higher time preference reduces the willingness to wait and shortens the investment horizon. In the market, interest rates convey information about the relative availability of present goods and about society's willingness to postpone consumption.

The theory of temporal imputation interprets interest as a specific manifestation of the general relationship between present means and future ends. Where an agent values the future but must forgo the present to attain it, a temporal difference in valuation arises. Interest is neither an anomaly nor exploitation, but rather the economic expression of the temporal structure of action.

6. Price, exchange and temporal coordination

6.1. *Exchange as a relationship between temporal valuations*

Voluntary exchange presupposes differing subjective valuations. Each party gives up what they value less in order to obtain what they value more, given their circumstances, ends and time horizons. This classical explanation can be enriched by considering that valuations are not merely subjective, but temporally structured. Each agent compares present means, future ends, urgencies, expectations and hopes.

When two people exchange goods, it is not simply a matter of two objects coming into contact. Rather, two temporal plans meet. The seller may prefer present liquidity in order to pursue other

ends; the buyer may prefer the good in order to integrate it into their own project. The price emerges in the exchange where these temporal valuations become compatible. It does not express an objective substance of value, but rather a social relationship of coordination between plans.

Exchange is, therefore, a temporal phenomenon. The agent sells because the good received now—usually money—has, for them, a greater capacity to serve future ends than the good handed over. The buyer buys because the good acquired occupies a higher position on their scale of priorities than the money handed over. The monetary price allows these two structures to meet without the need for the ultimate ends to be shared.

This interpretation is linked to the Austrian theory of the market as a process. Prices are not equilibrium data that agents simply accept; they are the results of a process of discovery, correction and coordination. Through exchange, agents reveal and revise their allocations. The price records, in monetary terms, an encounter between temporal interpretations of value.

6.2. *Price as a monetary synthesis of heterogeneous plans*

Price can be defined as the monetary expression of a momentary coordination between subjectively oriented valuations. It is momentary because plans change; it is subjective because it depends on individual valuations; it is temporal because each valuation refers to the capacity of resources to serve future ends. Price does not measure value in a cardinal sense, but it allows for the coordination of actions between agents who do not share the same scale of ends.

The role of money intensifies this coordinating capacity. In a barter economy, every exchange requires a direct match of needs. In a monetary economy, money acts as a generally accepted medium that allows the sale and purchase to be temporarily separated. An agent may sell today in order to buy tomorrow; they may retain liquidity for as yet undetermined purposes; they may compare projects by means of monetary prices. Money thus extends the temporal dimension of coordination.

Price summarises dispersed information, but it does not do so as a mechanical quantity. In line with Hayek's thinking, prices convey knowledge that no single agent possesses in its entirety (Hayek, 1945). Through temporal allocation, they also convey signals regarding the coordination of plans oriented towards different time horizons. A price increase may indicate present scarcity, future expectations, a change in demand or a reordering of priorities. Price alone does not explain the entire process; it is a signal that entrepreneurs interpret.

For this reason, price theory cannot be separated from uncertainty. Past prices provide information, but do not guarantee the future. The entrepreneur must interpret whether a price reflects a lasting opportunity, a temporary scarcity, a market error or a bubble. Temporal imputation comes into play once again: the actor attributes present significance to market signals in light of future goals and expectations.

6.3. *The Market, Discovery and Revision of Imputations*

The market is a process of confrontation between temporal attributions. Each actor assigns value to means and ends according to their own plan. But these plans do not exist in isolation: they meet, complement one another, clash and are corrected through exchange. Social coordination does not consist of everyone sharing the same end, but rather of means being continuously reallocated towards more highly valued uses.

Gain and loss play an essential role in this process. Gain indicates that a business allocation has coordinated means in a manner compatible with the future valuations of other actors. Loss indicates that the allocation has failed: the means were directed towards ends that did not receive sufficient validation in the market. The price system does not eliminate error, but it allows it to be detected and corrected.

In this sense, the market is not a state of equilibrium, but a temporary learning process. Market participants act on the basis of incomplete information; they interpret prices, anticipate demand, invest, wait and reassess. Market order emerges from the decentralised, coordination of these actions. The theory of temporal

imputation enables us to understand this order as a constantly reconfigured network of relationships between future ends and present means.

The temporal structure of price is particularly evident in capital, credit and durable goods markets, but is not limited to them. Even the price of a consumer good for immediate consumption reflects expectations, replacement costs, availability of resources, time preferences and alternatives. Every price contains a temporal dimension because every valuation does. The monetary economy makes this dimension visible in the form of exchange relations.

7. Temporal trust and radical uncertainty

7.1. Action in an open future

Action presupposes an open future. The agent acts because they consider it possible to alter the course of events through present means. If the future were completely determined and known, action would lose its problematic nature. If the future were completely inaccessible to any orientation, there would be no rational action either, but merely blind movement. Action exists in an intermediate position: the future is not given, but the agent believes they can influence it.

Radical uncertainty does not mean a total absence of guidance. It means that the human future cannot be reduced to a closed set of possible states with objective probabilities. Many economic actions are undertaken in situations where agents do not fully know the alternatives, the outcomes or the actions of other agents. Business planning, innovation, credit, saving and investment all take place within this context.

Praxeological theory does not need to convert uncertainty into probabilistic calculation in order to understand it. It is sufficient to recognise that every action is directed towards an outcome that is not guaranteed. The agent can learn, estimate, compare and draw on past experience; but they cannot eliminate the openness of the future. The temporality of action always includes the possibility of error.

This point is crucial to the theory of imputation. Imputing value from a future end means attributing present relevance to something that does not yet exist and may not come to pass. Imputation is not a technical deduction from complete data; it is a business-orientation under uncertainty. Therefore, economics cannot be reduced to comparative statics without losing sight of the central phenomenon of action.

7.2. Temporal Confidence and Entrepreneurship

Temporal confidence may be defined as the minimum condition under which an agent considers that their present resources can contribute to a preferable future. This confidence is not psychological optimism, nor irrational faith, nor a guarantee of success. It is the practical presupposition without which action would not be undertaken. Those who act assume, at least at the moment of acting, that there is a possible connection between what they are doing now and the end they hope to achieve.

Temporal confidence is distinct from certainty. The agent need not be certain that they will achieve the end; they need only consider that the course of action makes sense. An entrepreneur who invests, a worker who learns a trade, a saver who defers consumption, or a buyer who acquires an asset act because they attribute a future capacity to their resources. That attribution may fail, but without it there would be no action.

Entrepreneurship is the most visible form of this temporal confidence. The entrepreneur organises present resources based on an interpretation of the future. They do not passively wait for the future to arrive; they seek to shape it through planning, investment and coordination. Entrepreneurship does not eliminate uncertainty, but operates within it. Its function consists precisely in transforming the openness of the future into opportunities for action.

Temporal confidence, understood in this way, does not introduce a new, autonomous psychological category. It is an implication of action under uncertainty. If the agent directs means towards ends, they must consider that such direction is not

absurd. Temporal confidence denotes that minimal practical belief in the possible efficacy of action. That is why it can be incorporated into the theory without undermining its praxeological character.

7.3. Limits of probability in human action

Probability plays a legitimate role in many economic fields. Actuarial calculation, business statistics, financial diversification and contingency management all utilise past frequencies and probabilistic models. However, not all human uncertainty can be reduced to probability. Where the agent faces innovation, institutional change, entrepreneurial creativity or the strategic reactions of other agents, the set of possibilities is not fully given.

Mises distinguished between class probability and the specific understanding of singular cases (Mises, 1949). This distinction is useful for avoiding the illusion that any economic future can be treated as a statistical repetition. In many market problems, the entrepreneur does not merely calculate frequencies; he interprets unique situations. He must understand ends, expectations, institutions, habits and technological changes that cannot be reduced to a known distribution.

Kay and King have shown, in contemporary terms, that radical uncertainty demands narratives, judgement and practical reasoning, not merely probabilistic calculation (Kay & King, 2020). The theory of temporal imputation converges with this idea: the agent builds a bridge between present means and future ends through interpretation. That bridge is not a probability equation, although it may make use of quantitative information.

The implication for economic theory is that the future cannot be treated simply as discounted data. Financial discounting, interest rates and quantitative expectations are important tools, but they presuppose a more fundamental structure: the action of an agent who assigns value to the future and decides to act under uncertainty. Before calculation comes orientation; before the model comes attribution.

8. Discussion: contribution, objections and limitations

8.1. *Relationship with O'Driscoll and Rizzo*

O'Driscoll and Rizzo proposed an economics of time and ignorance centred on the market process, real change and the impossibility of reducing economic coordination to a timeless equilibrium (O'Driscoll & Rizzo, 1985). Their contribution lies in showing that the time relevant to economics is not merely a variable in dynamic models, but a realm of creativity, ignorance and learning. The theory of temporal imputation shares this approach.

The main difference lies in the level of analysis. O'Driscoll and Rizzo emphasise the implications of real-time for the market process and coordination. The theory developed here attempts to formulate the aforementioned categorical principle: before the market coordinates plans, each agent imputes value from future ends to present means. The market process is the social interaction of these individual temporal imputations.

The relationship between the two approaches is complementary. The economics of time and ignorance shows why markets are open processes of discovery. The temporal imputation shows why every economic action already possesses an open, future-oriented structure. The former emphasises the social process; the latter emphasises the praxeological link that makes it possible.

This distinction allows us to respond to the accusation that the theory of time has already been dealt with sufficiently. Indeed, it has been dealt with; but it can be reorganised from a more fundamental principle. It is not enough to say that the market occurs over time. We must show that value, cost, capital, interest and price are comprehensible only because action itself is a temporal imputation.

8.2. *Relationship with Kay and King*

Kay and King have popularised the concept of radical uncertainty to criticise the tendency to treat all action as if it were a problem of probabilistic calculation (Kay & King, 2020). Their approach lies

outside the Austrian praxeological core, but it is useful for demonstrating the inadequacy of models that reduce human action to maximisation under known conditions. The real economy contains situations in which agents do not have full knowledge of the space of possibilities.

The theory of temporal imputation incorporates this intuition, but integrates it into a different framework. Radical uncertainty is not merely an epistemological problem; it is a condition of action. The agent acts because the future is not fixed and because they believe they can shape it. The openness of the future is what makes entrepreneurship, profit, loss and the revision of plans possible.

In this sense, radical uncertainty does not destroy economic rationality. It shifts it from mechanical calculation towards the interpretative coordination of means and ends. The rational agent is not one who knows the future, but one who organises present means in accordance with valued ends and corrects their allocations as reality responds. Praxeological rationality is a rationality of action under open-ended time.

The connection with Kay and King also helps to clarify that the proposed theory does not seek to turn economics into a psychology of expectations. The core is not the psychological description of how individuals envisage the future, but the logical structure whereby any action requires anticipating an end, assigning value to means, and accepting uncertainty. Radical uncertainty is relevant because it makes this assignment an entrepreneurial act rather than a closed calculation.

8.3. *Blaug's Critique and Indirect Productivity*

A significant objection is levelled against the idea that more indirect methods of production are necessarily more productive. Put simply, this thesis may appear to be an unjustified technical generalisation. Blaug criticised interpretations of the theory of capital that seemed to assume an automatic link between greater productive detours and higher productivity (Blaug, 1997). This criticism necessitates a careful clarification of the Austrian proposition.

The theory of temporal imputation does not maintain that all accumulation of indirect means is productive. It maintains that indirect production broadens the range of productive possibilities when the means are correctly ordered towards valued future ends. The difference is decisive. Productivity does not arise from the mere quantity of capital, but from the structure of temporal complementarity that enables the means to contribute effectively to the end.

A longer process may be worse than a shorter one if it introduces useless stages, if it ties up resources without coordination, if it depends on erroneous expectations, or if it produces goods that consumers do not value. A shorter process may be superior if it responds better to urgent ends or if it avoids unnecessary waiting costs. Economic temporality is not measured by abstract length, but by praxeological adequacy.

Blaug's critique, therefore, does not refute the temporal theory of capital; it refutes a mechanistic version of it. The appropriate Austrian response consists of emphasising the heterogeneity of capital, the entrepreneurial function and the coordination of plans. This is precisely why temporal imputation is useful: it shows that capital goods are not productive in themselves, but rather because of the place they occupy within a structure of ends and means.

Temporal productivity must be defined as the capacity of a structure of means to realise future ends of greater value, given the technical conditions, entrepreneurial expectations and the coordination of plans. This definition preserves Böhm-Bawerk's intuition without resorting to mechanistic assumptions. Indirect production is a possibility for greater productivity, not a guarantee independent of entrepreneurial allocation.

8.4. *Scope of the theory of temporal imputation*

The theory of temporal imputation has a categorical scope. It does not, on its own, provide an empirical measure of the interest rate, a pricing formula or a technical criterion for selecting investments. Its function is more fundamental: to show the common root of the economic categories in the temporal structure of action. Empirical

applications require additional historical, institutional and business knowledge.

This limitation is not a weakness, but a methodological demarcation. Praxeology does not replace economic history, accounting, business administration or institutional analysis. It offers them a categorical framework. Just as the axiom of action does not predict what ends each individual will pursue, temporal imputation does not predict which capital structure will prevail. It explains what it means to act, invest, wait, value and coordinate under uncertainty.

The theory must also avoid overly absolute language. To say that value flows from the future to the present does not mean that past events are irrelevant. Experience, past production, existing institutions and inherited resources condition action. But their present economic significance depends on future-oriented valuation. The past provides means and constraints; the valued future determines their use.

Finally, the theory does not elevate temporal confidence to the status of an independent psychological law. Temporal confidence is merely the minimum practical condition for action under uncertainty. The agent need not be optimistic; they need only consider that their means may have some efficacy. This formulation maintains praxeological coherence and avoids transforming the argument into a sociology of emotions.

9. Conclusions

This article has proposed a praxeological reconstruction of economic theory based on temporal imputation. The central thesis is that economic value arises when the agent imputes meaning to present means in terms of future ends. The future does not physically cause the present, but it orders it praxeologically. This distinction allows us to understand why value does not reside in things, nor in past labour, nor in objective properties, but in the temporal relationship between ends and means.

The distinction between physical time and praxeological time has made it possible to clarify the basis of the argument. Physical time is homogeneous and measurable; praxeological

time is teleological, qualitative and action-oriented. Economics does not study clock time, but rather the time of the agent who waits, forgoes, invests, anticipates and coordinates. Action exists because there is a 'not yet' between the present situation and the desired end.

Building on this structure, fundamental categories have been reinterpreted. Cost is the temporal sacrifice of incompatible alternatives. Time preference expresses the value difference between present and future availability. Capital is a temporal order of heterogeneous means. Original interest manifests the relationship between present and future goods. Price is a monetary coordination of subjective temporal valuations. Temporal trust is the minimum practical condition for action under radical uncertainty.

The analysis has also incorporated a necessary clarification regarding temporal productivity. Indirect production does not increase productivity through the mere accumulation of means or by simply lengthening the process. It can only do so when the structure of means is correctly coordinated by the entrepreneurial function towards valued future ends. This clarification allows Blaug's critique to be integrated without abandoning the core of the Austrian theory of capital.

The contribution of this work consists, ultimately, in presenting economics as the science of purpose-oriented human time. It is not a question of replacing existing Austrian theory, but of making its temporal unity explicit. Menger, Böhm-Bawerk, Mises, Hayek, Lachmann, Kirzner and Huerta de Soto provide decisive elements for this reconstruction; the theory of temporal imputation seeks to demonstrate the common principle that links them. Where there is action, there is time; where there is praxeological time, there is imputation; and where there is imputation, the fundamental economic categories arise.

Declaration of conflict of interest

The author declares that there is no conflict of interest relating to the drafting, evaluation or possible publication of this article.

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CONSTITUTIONAL LAW IN THE SERVICE OF HUMAN ACTION: PROPOSALS TO SAFEGUARD ENTREPRENEURSHIP FROM THE PERSPECTIVE OF THE AUSTRIAN SCHOOL OF ECONOMICS

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Abstract: The passing of an Amnesty Law which validates the actions taken by the Catalan regional authorities following the declaration of independence on 1 October 2023, due to the annulment of judicial rulings against the political leaders who promoted these actions, leads to a derogation from the Spanish Constitution of 1978 through delegated legislative power, affecting key elements of the Constitution such as equal treatment under the law and the independence of the judiciary, supplanting the constitutional power of the Spanish people and constituting a violation of the values set out in Article 2 of the Treaty on European Union, namely the rule of law and the separation of powers. Furthermore, public intervention in the economy results in a breach of the free movement of capital and services established in the Treaty on the Functioning of the European Union and an erosion of property rights. The aim of this paper is to analyse, from the perspective of human action within the Austrian school of economic thought, whether constitutional law is effective in guaranteeing the individual's natural rights.

Keywords: Amnesty, Constitution, constituent power, individual rights, human action, business function.

JEL: B53, E5, H10, H70, H71, K42.

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1. Scientific significance of this article

The Austrian School has analysed the consequences of state planning on human action, to the extent of distorting the business function and causing recurring economic cycles. This article aims to demonstrate how such planning by the derived powers (legislative and executive) (i) has overstepped the bounds of the 1978 Spanish Constitution by en masse overturning court rulings against a coup d'état, and (ii) has undermined the right to property and the free movement of capital and services within the EU.

Having demonstrated how the powers of the State know no bounds when it comes to infringing upon liberty and property, a proposal is put forward to curtail the powers of the State under a Constitution that guarantees the absence of coercion through citizens' juries presided over by judges. The aim is to ensure that the entrepreneurial function can operate free from coercion arising from the State's declaratory self-protection and executive. The scholarly novelty of this article lies in analysing the Spanish and European cases and translating the ideas of the Austrian School into a draft constitutional reform, which guarantees free social cooperation between individuals without state coercion arising from legislative planning or taxation.

2. Mises and the Austrian School on human action: the State as a destroyer of processes of voluntary cooperation and individual rights

As Mises demonstrates in *Human Action*¹, the elements of human action are individually subjective (ends, means, value, utility,

¹ "Ultimately, human action invariably seeks to satisfy the desire felt by the individual. It is only through individualised value judgements that one can assess the degree of personal satisfaction; these judgements differ according to the various parties involved and, even for the same person, vary from one moment to the next. It is subjective assessment — based on one's own will and judgement — that makes people more or less happy or unhappy. No one is capable of determining what will provide greater well-being for another person." Mises (2011:19).

plans, scarcity, etc.), and these change over time² as each individual acquires new information whilst acting, which dooms any state planning to failure. Moreover, such planning (however minimal it may be) undermines the exercise of individual rights and the process of voluntary cooperation without coercion that is the market.³

Therefore, every human being pursues subjectively different ends depending on the value they attach to them; this value is constantly changing in accordance with these causal connections and the information available at any given moment, differing for each individual and emerging as they act. As Hayek (2010:148) explains, 'A proper understanding of the role played by the transmission of information (that is, of specific knowledge regarding the prevailing circumstances) is the key to understanding the functioning of large-scale social orders. Hayek formulated his concept of 'dispersed knowledge' as follows in *The Use of Knowledge in Society* (1945): given that knowledge arises subjectively in accordance with

² "The man who acts distinguishes between the time prior to the satisfaction of a need and the time during which the need is satisfied. Action always aims to avert future discomfort, which may well refer to the very next moment. Between the moment when the action begins and the moment when the desired end is achieved, there is a certain interval which is like a period of maturation; the seed sown by the action eventually bears fruit. Agriculture provides us with clear examples in this regard. A considerable period of time elapses between tilling the soil and the fruit reaching maturity. The improvement in the quality of wine over time is another example. There are cases, however, in which this period of maturation is so short that we can say the fruit is obtained instantly. Insofar as an action involves labour, it is affected by the time taken to perform that labour. The execution of any task takes time. In some cases, as we have said, this time span is so brief that it can be said the execution requires no time at all." Mises (2011:573).

³ We might also quote here from the First Epistle of Saint Paul the Apostle to the Corinthians (1 Corinthians 12:4–1), where Saint Paul explains the different subjective gifts of each individual:

"Brothers and sisters: There are different gifts, but the Spirit is the same. There are different ministries, but the Lord is the same. There are different activities, but God, who works in all, is the same.

In each person the Spirit is manifested for the common good. One receives the gift of wisdom; another, the gift of knowledge. To one is granted the gift of faith; to another, the grace of healing; and to yet another, miraculous powers. One receives the gift of prophecy, and another, the gift of discerning spirits. One is granted the gift of tongues, and another the gift of interpreting them. But it is one and the same Spirit who does all these things, distributing his gifts to each person as he wills."

the ends that each individual gradually discovers, planning is inefficient due to the impossibility for state structures to have at their disposal all the subjective knowledge that each individual generates. Only entrepreneurial *vigilance* (not state planning) will enable the individual entrepreneur to identify imbalances between supply and demand in order to offer the consumer a product of better quality and at a better price. And as Rüstow (1980, 563) explains: “It has been demonstrated that private property—particularly in terms of productivity, and distributed amongst as many hands as possible—is the best guarantee of political and economic freedom; the total socialisation of the means of production, by contrast, leads to the greatest lack of freedom and exploitation of the worker under a totalitarian state and its *dictatorial* rules.”⁴

This demonstrates why state planning is impossible—that is, the “theoretical impossibility of socialism”, in the words of Huerta de Soto⁵. In the question posed by Carl Menger and quoted by Hayek in *The Fatal Conceit* (2010)—‘*How could it be that institutions which serve the common good and contribute so much to development could have come into being without a common will directed towards that end?*’—embodies the empirical conclusion reached in this essay following an analysis of the repeal of the Constitution by Organic Law 1/2024 on Amnesty, accompanied by declaratory and executive self-protection measures which failed to guarantee the separation of powers or the rule of law as set out in Article 1 of the 1978 Constitution, as well as the State’s interference in the right to property to the point of effectively nullifying it (thereby infringing the free movement of capital and services under Articles 56 and 63 of the Treaty on the Functioning of the EU).

In this regard, Rothbard explains (2000[1974]:68): “The State has always demonstrated an impressive talent for expanding its powers beyond any limits that might be imposed upon it. Since the state necessarily subsists on the compulsory confiscation of private capital, and since its expansion necessarily entails ever-greater encroachments upon the individual and private enterprise, we

⁴ The translation from the original English is my own.

⁵ Huerta de Soto ([1998] 2023).

must conclude that the state is profoundly and inherently anti-capitalist”.

Hoppe (2020) also argues that, whilst spontaneous orders tend to facilitate the achievement of most of the individual objectives of all members forming part of that order, organisations tend to serve the ends of the members who have created or who direct them⁶.

Hayek, as a leading disciple of Mises, demonstrated that laws enacted by political power cannot predict the behaviour of individuals; in other words, legal planning of individual behaviour is doomed to failure (1960:204): “Since the law determines only part of the conditions which the actions of individuals must satisfy, applying to anyone whatsoever provided that certain circumstances exist and irrespective of most of the facts of each specific situation, the legislator cannot foresee what its effect will be with regard to certain individuals or for what purposes they will use it. When we say that the law is instrumental, we mean that by obeying it, the individual pursues his own ends and not those of the legislator.”

Hayek also understood that the foundations of liberty require that the law cannot be applied differently depending on the person to whom it applies (precisely what the Amnesty Act has brought about, as we shall analyse): “The concept of freedom under the rule of law, the main concern of this work, rests on the argument that, when we obey laws in the sense of abstract general rules established independently of their application to us, we are not subject to the will of another man and are therefore free. It can be said that laws, and not men, reign supreme, insofar as the legislator is unaware of the particular cases to which their provisions apply, and also because the judge who applies them has no choice when it comes to drawing the conclusions that follow from the body of law in force and the particular circumstances of the case under consideration. ‘The law is not arbitrary because it is established without knowledge of the particular case, and no individual will determines the coercion used to enforce it’ (1960: 205).

Professor Huerta de Soto (2017:17) has explained that when the State acts in an interventionist manner through its monopoly on

⁶ Further reading on the subject: , Redondo Fernández, A (2023) .

force, it exerts a decisive influence by distorting individual behaviour: "It is particularly important to understand that the definition, acquisition, transfer, exchange and defence of property rights—which structure and drive the social process—do not require a monopoly on violence (the state). Not only do they not require it, but, on the contrary, the state always acts by trampling on multiple legitimate property titles, defending them very poorly and corrupting individual behaviour (both moral and legal) with regard to respect for the private property rights of others."

Following in the footsteps of the legal scholar Bruno Leoni, Huerta de Soto concludes "that no free market is, ultimately, compatible with the centralised process of parliamentary legislation to which we have become so accustomed today; thus, there is a clear parallel between the concept of positive law and socialism, on the one hand, and the concept of law understood as an evolutionary and customary product and freedom, on the other" (Leoni 2010:3). Professor Huerta de Soto cites as an example the distortion caused by the State to freedom and the spontaneous market order when, since the modern era, it has allowed banks to lend money without maintaining a 100 per cent cash reserve ratio, through fractional reserve banking (Huerta de Soto 2023:25)⁷.

Fernández Cadavid (2024: 496) elaborates on this idea of the alteration of the market's cooperative processes whenever those holding public power intervene; for, to the extent that such actors—who claim to pursue the common good—actually pursue subjective interests, they cause harm to individuals by wielding a monopoly on force⁸.

⁷ "The actions of the state authorities, in collusion with the banking sector, led to a fraudulent alteration of the institution of the deposit; bankers progressively violated the traditional principles of law governing irregular deposits, as well as the reasons why the social mechanisms of control failed to curb the abuses committed. The role of governments in this process will also be examined. Far from seeking to scrupulously uphold the legal implications of property rights, governments, almost from the outset, backed the bankers' irregular activities and granted them exemptions and privileges in exchange for being able to exploit these for their own ends. This explains the emergence of the traditional relationships of close complicity and solidarity between state institutions and the banking sector, which have persisted to this day."

⁸ "We must not forget that the government is run by flesh-and-blood human beings who, simply because they are democratically elected, do not cease to be mere

3. The restoration of inalienable rights: tyrannicide among the Spanish Scholastics and constituent power in our own time

As is well known, Juan de Mariana, in his work *De rege* (1599), like Francisco Suárez⁹, considers that individual natural rights are inalienable because they derive from God, and that when the sovereign disregards them, individuals have the right to depose him. On economic matters, in his book *De monetae Mutatione* (1609), published as *Discurso de la moneda de vellón*, Mariana considers it illegitimate for the monarch to devalue the currency by reducing the amount of gold, a view which led to an Inquisition trial brought against him by King Philip III himself. Both of Mariana's works serve to emphasise the natural law character of the legal order, that is, the inalienable rights that cannot be infringed upon by any human decision.

This conception of natural rights preceding political power was used by Locke in his well-known *Second Treatise on Civil Government* (1690) to justify the validity of the social contract, whereby subjects delegate limited powers to the State only when individual rights are respected; otherwise, subjects have the right to rebel¹⁰. Building on this, Thomas Paine, in his *Common Sense* (1776), justi-

mortals, tainted by original sin, and do not become angelic administrators in the service of the common good. And whilst the economic actions of each individual in the market produce unintended consequences, beyond their own control, the decisions taken by those who hold the legitimate monopoly on the use of force—that is, those in government—can produce highly distorting results, even when such decisions are taken with the aim of benefiting some of the most disadvantaged sectors of the population. Barring extremely exceptional circumstances, government intervention in prices leads to shortages—that is, a lack of goods—which will subsequently be sought on the black market at much higher prices. Those most adversely affected will be those who have the least: less money, fewer connections, less knowledge and less time."

⁹ Above all, in Chapter IV of Book VI of the *Defensio Fidei*, a book entitled *De Iuramento Fidelitatis Regis Angliae* ('On the Oath of Fidelity of the King of the English'), as explained in the interesting study by Oporto, P. F. (2013). "The core of Francisco Suárez's doctrine on resistance and tyrannicide". *Pensamiento. Journal of Philosophical Research and Information*, 69(260), 493–521

¹⁰ "The power of the legislature, being derived from a voluntary delegation by the people and from an institution established by them, can be no other than that which has been expressly conferred upon it, namely: the power to make laws, and not the power to appoint legislators. Therefore, the legislature is unable to transfer to others the authority to make laws"

fied the US Declaration of Independence of July that same year as a human act of rebellion against the oppression of the British monarch¹¹. In further elaboration of that Declaration, the *Federalist Papers* by Hamilton, Jefferson and Madison reiterate that the founding commitment of the Union, as set out in the Constitution of 1787, is based on the protection of individual rights and a voluntary union, in which individual rights are affirmed as deriving from God and not from the State.

It is evident, therefore, that the theory of the supremacy of the Constitution, set out by the founding fathers of the United States (Hamilton, Jefferson, Madison) as the supreme norm of constituent power to guarantee individual rights, acts as a counterbalance to the actions of derived powers that infringe upon the natural rights of man and distort market processes. This supremacy has been guaranteed ever since the famous *Marbury v. Madison* ruling, handed down by *Chief Justice* Marshall of the US Supreme Court (1803).¹²

However, the two approaches to guaranteeing this supremacy of the Constitution—and thus individual rights—namely that of the Constitutional Court (Kelsen) and that of the Head of State (Carl Schmitt), as we shall see, have failed in the Spanish case. It is thus evident that the theory of human action – that is, the impossibility of legally planning human actions to prevent conduct

¹¹ “When, in the course of human events, it becomes necessary for a people to dissolve the political bonds which have connected them with another, and to assume amongst the nations of the earth that separate and equal station to which the laws of nature and the God of nature entitle them, a due respect for the judgement of mankind requires that they should set forth the reasons which impel them to separation.

We hold these truths to be self-evident: that all men are created equal; that they are endowed by their Creator with certain unalienable rights; that among these are life, liberty and the pursuit of happiness; that to secure these rights, governments are instituted amongst men, deriving their just powers from the consent of the governed; that whenever any form of government becomes destructive of these ends, the people have the right to alter or abolish it and to establish a new government based on these principles, and to organise its powers in such a way as, in their judgement, is most likely to secure their safety and happiness.”

¹² In 2024, the US Supreme Court’s ruling in *SEC v. Jarkesy*, which prevents the SEC from imposing penalties without a jury trial, on the basis of the Seventh Amendment to the Constitution of 1787, a ruling that struck down the Dodd-Frank Act of 2010 as unconstitutional. Judgment available at: https://www.supremecourt.gov/opinions/23pdf/22-859_1924.pdf (accessed 25 November 2024).

harmful to individuals outside the sphere of power – could also be applied to the concepts of the Constitution's 'supremacy' and 'normativity'. In other words, although the Spanish Constitution of 1978 provides for mechanisms to safeguard these rights (or even the case law of the Court of Justice of the European Union would allow judges to set aside national laws that infringe the rule of law as set out in Article 2 of the Treaty on European Union), as we shall demonstrate, these mechanisms, which rely on human beings (the King, legal advisers to Parliament, judges of the Constitutional Court), have not been sufficient to guarantee the supremacy of the Constitution and of individual rights (the right to equality before the law).

As Juan de Mariana also theorised, if the authorities disregard natural rights, subjects have the right to tyrannicide; that is, to depose the sovereign in order to restore natural rights. In the following chapter, we shall demonstrate the lack of self-restraint on the part of the State's powers, and the inability of the current legal system to guarantee individual rights to liberty and property, which must lead to the abolition of the current system through constituent power, as we shall explain later.

4. The 2024 Organic Law on Amnesty, which abrogates the rule of law enshrined in the Constitution without the consent of the individuals who constitute the constituent power

Organic Law 1/2024 on Amnesty led to the annulment of hundreds of court judgements handed down against the perpetrators or collaborators of the 2017 secessionist coup in Catalonia, and the dismissal of ongoing legal proceedings, with the expungement of criminal records, for acts committed between 2012 and 2023 and even those still being committed. In other words, it entailed the legitimisation of secession and the delegitimisation of the King, the Senate and the judiciary, which had prosecuted these acts in accordance with the law. Consequently, it entails the repeal of the rule of law enshrined in Article 1 of the Constitution, the fundamental right to equality before the law (Article 14 of the Constitution) and

the exclusive power of the judiciary to adjudicate and enforce judgements (Article 117 of the Constitution)¹³.

Article 9 of the Constitution states that ‘Citizens and public authorities are subject to the Constitution and the rest of the legal system’; consequently, the separation of powers established by the Constitution cannot be disregarded by the legislature, specifically the exclusive power granted to judges by Article 117 of the Constitution to adjudicate and enforce judgements. As John Locke noted as far back as 1690 (2004: 149–150): ‘The power of the legislature, being derived from a voluntary cession by the people and from an institution established by them, can be no other than that which has been positively granted to it, namely: the power to make laws, and not the power to make legislators. Therefore, the legislature is unable to transfer to others the authority to make laws’. These concepts are rooted in the inalienable natural rights of subjects, which precede power as the foundation of the political order, as had already been theorised by the Spanish scholastics of the 16th and 17th centuries (Juan de Mariana, Francisco Suárez, Francisco de Vitoria, etc.)¹⁴ This concept of the legislature’s subordination to a supreme text is clearly set out in the constitutions of several American states prior to the Federal Constitution of 1787 and in the Declaration of Independence of 1776 itself.

As we shall explain, the Organic Law on Amnesty was able to be passed following a chain of failures on the part of state institutions, which were controlled by specific individuals; this would seem to prove the Austrian School’s thesis regarding the impossibility of subjecting human action to planning¹⁵. As Mises explains

¹³ All of this is explained in detail in Pernas Alonso, J.M. . (2024), *“The Amnesty Act and the Repeal of the Constitution. Proposals for its reinstatement”*, ed. Universitas, Madrid, and in Pernas Alonso, J.M. (2023), *“Why the Amnesty Act constitutes a repeal of the Spanish Constitution and an anti-democratic usurpation of constituent power”*, *Revista de derecho público*, nos. 175–176, 2023, pp. 9–49.

¹⁴ Huerta de Soto, J. (2020), ‘Juan de Mariana and the Spanish Scholastics’, *Procesos de Mercado: Revista Europea de Economía Política*, Vol. XVII, No. 2, Autumn 2020, pp. 415–433.

¹⁵ Following the adoption of the Organic Law on Amnesty and its publication on 11 June 2024, a draft organic law was tabled in January 2025 by the Socialist Parliamentary Group to prohibit private prosecutions, prevent judicial investigations based on newspaper reports, and abolish the offence of religious hatred.

in *Human Action* (2001: 51–52), there are no acts of the state or of institutions, but only of conscious human beings:

“First and foremost, it should be noted that action is always the work of individual beings. Collective entities inevitably operate through one or more individuals, whose actions are attributed to the collective in a mediated manner. It is the meaning attributed to the action by its author and those affected by it that determines its nature. This meaning of the action leads to one act being regarded as of a private nature whilst another is considered to be of a state or municipal nature. It is the executioner, not the state, who physically executes the criminal. Only the meaning attributed to the act transforms the executioner’s action into a state action. A group of armed men occupies a square; whether such an occupation is attributed to the nation rather than to the officers and soldiers present there depends on intention. If we come to understand the essence of the myriad individual actions, we will necessarily have grasped everything pertaining to the actions of collectives. For a collective lacks its own existence and reality, independent of the actions of its members. Collective life is embodied in the actions of those who make it up. It is not even conceivable that a social entity could operate without individual mediation. The reality of any association lies in its capacity to drive and direct specific individual actions. Therefore, the only path leading to an understanding of collective entities begins with an analysis of the individual’s actions.”

Consequently, from the Austrian perspective, it is worth analysing which personal factors within the institutions allowed for the destruction of the Constitution and of individual rights (particularly the right to equality before the law and the exclusivity of the judiciary as a reflection of the separation of powers).

Firstly, the Organic Law on Amnesty was able to be tabled in Congress due to the King’s proposal to appoint Pedro Sánchez as Prime Minister, despite the fact that none of the political groups supporting Pedro Sánchez met with the King, as required by Article 99 of the Constitution: “Following each renewal of the Congress of Deputies, and in any other constitutional circumstances where this is appropriate, the King, **after consultation with the representatives**

designated by the political groups with parliamentary representation, and through the President of the Congress, shall propose a candidate for the Presidency of the Government". Furthermore, the Head of State proposed Pedro Sánchez for investiture, knowing full well that his programme contained an Organic Law on Amnesty which would entail overturning court rulings and legitimising the pro-independence coup that the King himself had called for action against in his speech of 3 October 2017, addressed to the Spanish people and their institutions¹⁶.

Secondly, the draft Organic Law on amnesty was processed in Parliament, despite the fact that the Rules of Procedure of Parliament require the Parliamentary Legal Advisers to reclassify such a bill as a constitutional reform¹⁷, and that in 2021 an

¹⁶ The King's dereliction of his duties as guarantor of the permanence and unity of the State (Article 56 of the Spanish Constitution), and as Head of State obliged to meet with parliamentary groups before proposing a candidate (Article 99 of the Spanish Constitution), is explained in the book (2024), *"The Amnesty Act and the Repeal of the Constitution. Proposals for its Reinstatement"*, published by Universitas, Madrid, and in the academic articles *'The Role of the Head of State in the Survival of the Spanish Constitution of 1978'*, *Revista Tachireense de Derecho*, Nos. 33–34, 2022–2023, pp. 247–262; and (2023), *'Why the Amnesty Act constitutes a repeal of the Spanish Constitution and an anti-democratic usurpation of constituent power'*, *Revista de derecho público*, Nos. 175–176, 2023, pp. 9–49.

¹⁷ In accordance with Article 147 of the Rules of Procedure of Congress, the amnesty bill, as it entails a constitutional reform (including a general pardon prohibited by the Constitution as well as nullifying the exclusivity of judicial power under Article 117), should be approved by a two-thirds majority of the plenary sessions of both the Congress and the Senate, after which the Cortes should be dissolved:

'1. Bills and legislative proposals seeking a total revision of the Constitution or a partial revision affecting the Preliminary Title, Chapter II, Section I of Title I, or Title II of the Constitution shall be submitted for debate before the plenary session, which shall be conducted in accordance with the rules laid down for debates on matters of the whole.

2. Once the debate has concluded, a vote shall be taken. If two-thirds of the members of the Chamber vote in favour of the principle of revision, the President of Congress shall notify the President of the Senate.

3. If this Chamber also secures a two-thirds majority of the Senators, the President of Congress shall notify the President of the Government so that the latter may submit the Royal Decree dissolving the Cortes Generales to the King for his assent.

4. Once the new Cortes have been constituted, the decision taken by the dissolved Cortes shall be submitted for ratification. If the decision of the Congress is favourable, this shall be communicated to the President of the Senate.

amnesty had already been deemed unconstitutional by those same advisers¹⁸.

Finally, this Organic Law was signed into law by the King of Spain and was consequently promulgated and published in the Official State Gazette (BOE) on 11 June 2024, despite the fact that the Head of State's duty is to uphold and ensure the upholding of the Constitution, and to guarantee the unity and permanence of the State¹⁹, and as Manuel García Pelayo (2024:72–73)²⁰, the first President of the Constitutional Court, argued, the King has the power to guarantee the permanence of the constitutional order by

5. Once the resolution has been adopted by both Houses, Congress shall, in accordance with the ordinary legislative procedure, process the new constitutional text, which, in order to be approved, shall require a favourable vote by two-thirds of the members of Congress. Should it obtain such approval, it shall be forwarded to the Senate.

6. Once the constitutional amendment has been approved by the Cortes Generales, the President of the Congress of Deputies shall notify the Prime Minister thereof, for the purposes of Article 168.3 of the Constitution.'

The Legal Advisers to Parliament, and in particular the Chief Legal Adviser, are the ones who could have advised the Bureau on the need to process that bill as a proposal for constitutional reform in accordance with the procedures set out in Article 147 of the Rules of Procedure of Parliament.

¹⁸ On 23 March 2021, the Bureau of the Congress of Deputies refused to accept for consideration the draft organic law tabled by the ERC and Plural parliamentary groups (Junts, the CUP and the PDeCAT) on amnesty and the resolution of the political conflict between Catalonia and the Spanish State (document number 122/000132/0000).

¹⁹ Art. 61.1: "Upon being proclaimed before the Cortes Generales, the King shall take an oath to faithfully perform his duties, to uphold and ensure the upholding of the Constitution and the laws, and to respect the rights of citizens and of the Autonomous Communities". Art. 56 of the Spanish Constitution: "The King is the Head of State, a symbol of its unity and permanence; he arbitrates and moderates the regular functioning of the institutions."

²⁰ "It is the King's legal duty to uphold and ensure the upholding of the Constitution, (...) and whoever has a mission to fulfil must possess the implicit powers that are a prerequisite for fulfilling it: such has been the doctrine upheld throughout history by the Supreme Court of the United States in the exercise of its constitutional jurisdiction." Also relevant is the opinion of Eloy García in the Introductory Note: "The King under the Spanish Constitution is neither the neutral monarch of the Swedish Constitution of 1974, nor, of course, the 'governmentalised' King that Mussolini's fascism deliberately designed for Victor Emmanuel III of Savoy, and who would existentially exhaust the monarchy's time in Italy, making it appear as a tragic buffoon from whom democratic recovery was impossible", Eloy García, p. XIV of the Introductory Note.

refusing to sanction laws that could lead to the destruction of the Constitution (as might be the case with the Organic Law on Amnesty, which in practice repeals the rule of law, the separation of powers and equality before the law; in other words, an Organic Law that undermines the permanence of the constitutional state established by the Spanish constituent power).

Following its adoption and publication in June 2024, Spanish judges have been unable to apply the rule of law enshrined in Article 2 of the Treaty on European Union in relation to the Amnesty Act.

Indeed, Spanish judges could invoke the principle of sincere cooperation (Article 4 of the TEU) and the case law of the CJEU, which obliges judges to disapply a law – or even a constitutional provision – that is contrary to the Treaties, such as a law contrary to the rule of law enshrined in Article 2 of the TEU. Furthermore, neither the Constitutional Court nor the General Council of the Judiciary could sanction judges for applying EU law in such cases; however, the chances of a judge daring to do so are remote, as has been seen (to date, not a single judge has directly refused to apply the Amnesty Act).

Thus, the CJEU, in its judgment of 2 March 2021 in Case C-824/18, concerning a request for a preliminary ruling made pursuant to Article 267 of the TFEU by the Supreme Court of Poland (Administrative Chamber), has set out why national judges, in accordance with Articles 2 and 19 of the TEU, may disapply a law which they consider to be in breach of the rule of law as a fundamental value of the EU and its Member States, in the face of any pressure from the legislative and executive branches.

“116. As the Court of Justice has emphasised on numerous occasions, this requirement of judicial independence, which is inherent in the judicial function, forms part of the essential content of the right to effective judicial protection and the fundamental right to a fair trial, which is of paramount importance as a guarantor of the protection of all the rights conferred by EU law on individuals and of the safeguarding of the common values of the Member States set out in Article 2 TEU, in particular the value of the rule of law [judgment of 5 November 2019,

Commission v Poland (Independence of the ordinary courts), C-192/18, EU:C:2019:924, paragraph 106 and the case-law cited]. (...)

150. In the event of an established infringement of those articles, the principle of the primacy of EU law must be interpreted as requiring the referring court to disapply the amendments in question, whether of legislative or constitutional origin, and, consequently, to continue to exercise the jurisdiction conferred upon it to rule on disputes brought before it prior to those amendments taking effect."

In one of the most recent cases, in a judgment of 26 September 2024 (Case C-792/22)²¹, the Court has reiterated, in the context of a reference for a preliminary ruling made by a Romanian court, that the courts and tribunals of the Member States are obliged to follow the interpretation of EU law given by the Court of Justice of the European Union, even in the face of a contrary interpretation that may be given by their Constitutional Court, although they are obliged to comply with the latter's rulings under national law²². It is worth quoting paragraphs 63 to 67 of this judgment of the CJEU (emphasis added):

"63 In this context, it must be recalled that the principle of interpretation in conformity requires national courts, taking into account the entirety of their domestic law and applying the methods of interpretation recognised by it, to do everything within their power to ensure the full effectiveness of the directive in question and to arrive at a solution consistent with the objective pursued by it. The requirement of interpretation in conformity includes, in particular, the obligation on national courts to

²¹ Judgement available at: <https://curia.europa.eu/juris/document/document.jsf?jsessionid=C0E2A8326DD26D42F901F94D4717C305?text=&docid=290412&pageIndex=0&doclang=es&mode=req&dir=&occ=first&part=1&cid=1694769>

²² For a detailed analysis, see the blog by Gómez Fernández, Diego, 'The CJEU reiterates that a national court is not obliged to comply with a ruling of its Constitutional Court if it is contrary to the CJEU's interpretation of European Union law' (27 September 2024): <https://www.derechoadministrativoyurbanismo.es/post/el-tjue-reitera-que-un-juez-nacional-no-est%C3%A1-obligado-a-cumplir-una-resoluci%C3%B3n-de-su-tribunal-consti>

amend, where necessary, their established case-law if it is based on an interpretation of national law that is incompatible with the objectives of a directive (judgment of 6 November 2018, Max-Planck-Gesellschaft zur Förderung der Wissenschaften, C-684/16, EU:C:2018:874, paragraphs 59 and 60 and the case-law cited therein).

“64 As regards the possible disciplinary liability of a national judge, **the Court of Justice has held that EU law precludes national legislation or practice which allows a national judge to be held disciplinarily liable for any failure to comply with the rulings of a national constitutional court** [see, to that effect, the judgment of 22 February 2022, RS (Effects of judgments of a constitutional court), C-430/21, EU:C:2022:99, paragraph 87 and the case-law cited therein].

65 There is no doubt that, **as regards the disciplinary liability to which ordinary judges may be subject should they fail to apply the rulings of a national constitutional court, the safeguard of judicial independence cannot, in particular, mean that it is entirely ruled out that a judge may incur disciplinary liability, in certain highly exceptional circumstances, such as serious and wholly inexcusable conduct on the part of a judge in relation to judicial decisions he or she has handed down** [see, to that effect, the judgment of 22 February 2022, RS (Effects of judgments of a constitutional court), C-430/21, EU:C:2022:99, paragraph 83 and the case-law cited]. (...))

67 In the light of the foregoing considerations, the answer to the second question referred for a preliminary ruling is that the principle of the primacy of EU law must be interpreted as **precluding legislation of a Member State under which the ordinary national courts cannot, on pain of their members facing disciplinary proceedings, set aside of their own motion decisions of the constitutional court of that Member State, even where they consider, in the light of the interpretation given by the Court of Justice, that such decisions infringe the rights conferred on individuals by Directive 89/391.**”

Consequently, relying on the judgments of the CJEU concerning the breach of the rule of law by laws of Poland and Hungary, Spanish judges could have directly set aside the amnesty law,

without being subject to disciplinary sanctions by the Council of the Judiciary or the Constitutional Court, in accordance with the judgment of 26 September 2024 (Case C-792/22). However, they preferred to refer questions for a preliminary ruling or raise issues of unconstitutionality before the Constitutional Court, with the result that the Amnesty Act remained in force – a law which, it should be recalled, leads to the annulment of dozens of judgments handed down against offences committed by those within the Generalitat de Catalunya who carried out a secession not provided for in the 1978 Constitution.

Nor has the European Commission (composed of the European People's Party and the Party of European Socialists) sought to challenge this Act before the Court of Justice of the European Union (CJEU), as it did against Polish laws on the retirement of judges, securing their suspension before the CJEU, as I have highlighted in Pernas Alonso (2025), *The suspension by the Court of Justice of the European Union of national laws contrary to the rule of law and the European Commission's inaction regarding the Amnesty Act*.

And given that both the high courts (the Supreme Court, the High Courts of Justice, the National High Court) and the Constitutional Court are appointed by parliament through the General Council of the Judiciary, it is hardly surprising that the Constitutional Court, in ruling on various appeals on grounds of unconstitutionality, validated the constitutionality of the Amnesty Act in 2025 on the far-fetched grounds that the Organic Law on Amnesty does not interfere with judicial work (which implies ignoring the fact that it is the judges—the only ones who may adjudicate and enforce judgements pursuant to Article 117.3 of the Spanish Constitution—who have established this), and that amnesty is a valid measure for resolving a political conflict²³. In other words, it has been demonstrated how the

²³ It is well known, in this regard, that the political process of creating a purportedly independent Catalan state – the so-called ‘procés’ – has represented one of the greatest crises our constitutional democracy has had to face, from both a social and an institutional perspective. This process, the social rift it gave rise to, and the state measures that had to be taken to restore the constitutional breach caused – which included the application of the state coercion clause under Article 155 of the Spanish Constitution – may be regarded as extraordinary events in which the granting of an amnesty may be justified. The identification of the grounds for the amnesty cannot, therefore, be regarded as arbitrary. (...) Nor is it possible to discern in the LOANCat the

Constitutional Court allows the legislature to pass whatever laws it wishes, even if they nullify the judicial work that, under Article 117.3 of the 1978 Constitution, falls exclusively to the judiciary: **“The exercise of judicial power in all types of proceedings, adjudicating and enforcing judgements, falls exclusively to the courts and tribunals determined by law, in accordance with the rules of jurisdiction and procedure established therein”.**

From all this, we conclude that none of the state institutions provided for in the Spanish Constitution of 1978 has guaranteed the supremacy of the judiciary or the enforcement of its judgements, with the result that the rule of law proclaimed in Article 1 of the Constitution and the exclusive right of the courts to adjudicate, as set out in Article 117, have become a dead letter. Furthermore, not only have the branches of government derived from the State repealed the principle of equality before the law enshrined in the 1978 Constitution, these powers have also, on more than 270 occasions since 2020, rendered ineffective the free movement of capital and services set out in Articles 56 and 63 of the Treaty on the Functioning of the EU, as well as the right to property recognised in Article 33 of the Spanish Constitution and in the Charter of Fundamental Rights of the EU.

5. The State’s growing interference in property rights, in breach of the Treaty on the Functioning of the EU

Law students and those studying other social sciences are taught *“that public order could not exist in societies without the authoritarian*

intention to criticise or censure the judiciary that the appellants attribute to it. The contested law merely removes, with retroactive effect, the liability to criminal sanctions arising from the unlawful conduct falling within its scope of application; no legislative assessment can be inferred from this circumstance regarding the judicial activity that the courts may have carried out in the past in relation to the conduct that has now become eligible for amnesty. The application bases the existence of the aforementioned intent to censure or condemn not on the provisions of the LOANCat – to which no reference is made in substantiating this ground of challenge – but on other elements which, by their nature, cannot affect the validity of the law nor be subject to review through an action for unconstitutionality. Access to the judgment: [STC 6436-2024.pdf](#)

and rigid institutions of the State". However, as Bruce Benson (2000:21) explains, '*one way of dispelling this illusion is to show that a nation-state is not an essential prerequisite for the existence of law*'. As Vincent Ostrom explains, we cannot base the idea of order in social relations on the existence of a State as something inevitable for guaranteeing that order (1991:3).

In the words of Rothbard (2013:13), "The intellectual arguments that the state has used throughout history to obtain public consent can be classified into two categories: 1) that rule by the existing government is inevitable, absolutely necessary and far better than the unspeakable evils that its downfall would entail; and 2) that the leaders of the State are exceptional men, whose greatness, wisdom and altruism could never be matched by their mere subjects".

As Agustín Laje (2022:93) explains, "modern society is a society dominated by the State. (...) Thus, the State, which manages to stabilise, expand and intensify its dominance, regulates life in society as an authority situated above society itself, upon which social relations depend to a large extent. The vast majority of subjects come to take the existence of the State for granted as an organisation that has always existed and without which no existence would be possible."

Moreover, in recent years, the so-called 'state capitalism' has been gaining ground in the long-established liberal democracies, taking the form of public investment, state-owned enterprises, money creation, state investment funds, or golden shares and vetoes over corporate transactions, so that, as Alami and Dixon (2024) explain, in 2020, the capital of state-owned enterprises accounted for half of global GDP (45 trillion dollars). According to these authors, the capital controlled by these funds rose from less than one trillion dollars in 2000 to a staggering 11.8 trillion in 2023 – figures that exceed the combined value of hedge funds and private equity firms. Years earlier, Kurlantzik, J. (2016) had published *State Capitalism: How the Return of the State is Transforming the World*.

One example of this is the Trump administration's intervention, imposing conditions on the sale of US Steel to Japan Steel, which is also reflected in the dismissal of members of the Federal Reserve (under the Biden administration as well). The European Union, having breached the freedom of establishment, the free movement of capital and services, and the prohibition of public monopolies

(Articles 56, 63 and 101 of the Treaty on the Functioning of the EU), has, since the 2020 pandemic, allowed Member States to acquire controlling stakes in companies (as in the case of Telefónica) and to veto or impose conditions on commercial transactions on grounds of national interest (the Spanish Government's veto of a Hungarian company's acquisition of shares in Talgo, the three-year ban on a merger between BBVA and Banco Sabadell, etc.)²⁴. All of this is done under Article 7 bis of Law 19/2003 of 4 July, on the legal regime governing capital movements and economic transactions with foreign countries and on certain measures to prevent money laundering²⁵, and Royal Decree 571/2023 of 4 July on foreign

²⁴ *Government expands the scope of the anti-takeover shield by intervening in 147 transactions*, Expansión, 25 April 2025: *Government expands the scope of the anti-takeover shield by intervening in 147 transactions* | Business. *The 'Talgo case' leads to another extension of the Government's anti-takeover shield*, Expansión, 16 September 2024: *The 'Talgo case' leads to another extension of the Government's anti-takeover shield* | Business. *The Government will extend the protection for strategic companies by two years and broaden its scope*, El Debate, 12 December 2022: *The Government will extend the protection for strategic companies for a further two years. Sánchez consolidates control over strategic companies through SEPI and the anti-takeover shield*, The Objective, 28 February 2022, *Sánchez consolidates control over strategic companies through SEPI and the anti-takeover shield*

²⁵ 1. For the purposes of this article, foreign direct investment in Spain shall be deemed to include any investment as a result of which the investor comes to hold a stake equal to or greater than 10 per cent of the share capital of a Spanish company, and all other investments where, as a result of a corporate transaction, legal act or business transaction, control is acquired over all or part of the company, in accordance with the criteria set out in Article 7 of Law 15/2007 of 3 July on the Defence of Competition, provided that one of the following circumstances applies:

(a) They are carried out by residents of countries outside the European Union and the European Free Trade Association.

(b) Where they are carried out by residents of countries within the European Union or the European Free Trade Association, but the beneficial ownership lies with residents of countries outside the European Union and the European Free Trade Association. Such beneficial ownership shall be deemed to exist where the latter ultimately hold or control, directly or indirectly, more than 25 per cent of the investor's capital or voting rights, or where they exercise direct or indirect control over the investor by other means.

2. The liberalisation regime for foreign direct investment in Spain is hereby suspended in respect of investments made in the sectors listed below which affect public order, public security and public health:

(a) Critical infrastructure, whether physical or virtual (including infrastructure relating to energy, transport, water, healthcare, communications, the media, data processing or storage, aerospace, defence, electoral or financial systems, and sensitive facilities), as well as land and immovable property that are key to the operation of such infrastructure, understood to mean those covered by Law 8/2011 of 28 April, establishing measures for the protection of critical infrastructure.

investments, which clearly infringes the free movement of capital as set out in Articles 56 and 63 of the Treaty on the Functioning of the EU, but which the EU does not intend to apply to Spain. Article 63 of the aforementioned TFEU is very clear:

“1. Within the framework of the provisions of this Chapter, all restrictions on the movement of capital between Member States and between Member States and third countries shall be prohibited. 2. Within the framework of the provisions of this Chapter, any restrictions on payments between Member States and between Member States and third countries shall be prohibited.”

Article 56 of the TFEU sets out the same principle with regard to the free movement of services: “Subject to the following provisions, restrictions on the freedom to provide services within the

b) Critical and dual-use technologies, key technologies for industrial leadership and capacity-building, and technologies developed under programmes and projects of particular interest to Spain, including telecommunications, artificial intelligence, robotics, semiconductors, cyber-security, aerospace, defence, energy storage, quantum and nuclear technologies, nanotechnologies, biotechnologies, advanced materials and advanced manufacturing systems.

c) The supply of essential inputs, in particular energy, understood to mean those subject to regulation under Act 24/2013 of 26 December on the Electricity Sector and Act 34/1998 of 7 October on the Hydrocarbons Sector, or those relating to strategic connectivity services or raw materials, as well as food security.

d) Sectors with access to sensitive information, in particular personal data, or with the capacity to control such information, in accordance with Organic Law 3/2018 of 5 December on the Protection of Personal Data and the Guarantee of Digital Rights.

e) The media, without prejudice to the fact that audiovisual communication services, as defined in Law 7/2010 of 31 March on General Audiovisual Communication, shall be governed by the provisions of that Law.

3. Furthermore, the liberalisation regime for foreign direct investment in Spain is suspended in the following cases:

a) if the foreign investor is directly or indirectly controlled by the government, including public bodies or the armed forces, of a third country; for the purposes of determining the existence of such control, the criteria set out in Article 7.2 of the Competition Act shall apply.

b) if the foreign investor has made investments or participated in activities in sectors affecting security, public order and public health in another Member State, and in particular those listed in paragraph 2 of this Article.

(c) whether there is a serious risk that the foreign investor may engage in criminal or illegal activities affecting public security, public order or public health in Spain.

4. The Government may suspend the liberalisation regime for foreign direct investment in Spain in those other sectors not covered by paragraph 2 of this article, where such investment may affect public security, public order or public health, in accordance with the procedure laid down in Article 7 of this Act.

Union by nationals of Member States established in a Member State other than that of the person for whom the service is intended shall be prohibited.”

However, since 2020, more than 500 transactions have had to be submitted to the Government for authorisation (or rejection)²⁶ and in 2024 the Government’s so-called ‘anti-takeover shield’ received a total of 167 applications for prior authorisation to invest in Spain²⁷. This anti-takeover shield simply requires the Spanish Government to authorise the purchase of 10 per cent or more of a company’s share capital in a wide range of sectors (defence, security, energy, telecommunications, banking, etc.), as set out in Article 7 bis of the aforementioned Law 19/2003, plus other sectors which the Government may, at its discretion, deem appropriate.

In this regard, following the pandemic, the EU permitted national governments to intervene by bailing out companies at risk of bankruptcy, which was carried out by injecting public funds into these companies, primarily through the SEPI (Strategic Enterprise Support Fund)²⁸. As Huerta de Soto (2023:344) explains, “granting new loans to companies in the most capital-intensive stages to prevent them from entering a crisis, suspending payments and being forced to restructure (...) merely delays the onset of the crisis, at the cost of making the necessary readjustment much more severe and difficult later on. (...) Any policy of further credit expansion must therefore be avoided”.

The very same EU that in 2012 forced Spain to incorporate into Article 135 of the Spanish Constitution compliance with the European Stability and Growth Pact – which prohibits the public

²⁶ “Half a thousand companies have sought Moncloa’s approval to invest in Spain”, *The Objective*, 16 January 2025: Half a thousand companies have sought Moncloa’s approval to invest in Spain

²⁷ “Moncloa authorises investment by seven Chinese companies whilst blocking Hungarian investment in Talgo”, *The Objective*, 8 May 2025: Moncloa authorises investment by seven Chinese companies whilst blocking Hungarian investment in Talgo

²⁸ Strategic Companies Support Fund: The Strategic Companies Solvency Support Fund closes 2023 with €110 million in early repayments | SEPI. “SEPI will not recoup the 3,256 million used to bail out companies during the pandemic until 2029”, *Cinco Días*, 3 October 2024: SEPI will not recoup the 3,256 million used to bail out companies during the pandemic until 2029 | *Business* | *Cinco Días*

debt-to-GDP ratio from exceeding 60 per cent and a deficit of more than 3 per cent – is allowing the Spanish Government, in breach of EU fiscal rules, to have a public debt exceeding 100 per cent of GDP (currently 103.3 per cent according to the AIREF Debt Observatory²⁹).

As we have explained, this increase in the state's role in people's lives is inherent to the party-based state, given that both right-wing and left-wing parties need to place their supporters within state structures. If the powers of the state persist, as we shall see, the purchasing power of citizens and businesses will continue to erode, without them being able to react as they are subject to the state's declaratory and executive powers of self-regulation.

This growing collectivisation of the welfare state or any other form of centralised planning is brilliantly explained by Alexander Rüstow (1980:588):

“In a world based on the liberal market economy of free competition, there are no leadership positions or spheres of power. Only totalitarian movements can grant and distribute positions of power, and it is through obedience that followers obtain such positions. That is why totalitarian movements such as communism can promise their followers far greater rewards of power than less authoritarian ones, and why their propaganda is more effective in winning over support (...) by cloaking these positions of power in a supposed common interest.”

Hence, when the State intervenes through legislation or taxation (coercively), that is to say, always – whether through bailouts of companies or banks, subsidies, state aid, creating liquidity or allowing others to create it (banks' fractional reserve system) – what it is doing is preventing various privileged companies or individuals from having to put their own skin on the line, and passing on their asymmetry to the rest of the citizens who are not to blame; this amounts to arbitrarily exempting a privileged few from the consequences of their actions³⁰. In this regard,

²⁹ AIREF. Debt Observatory. November 2025

³⁰ “For example, in 2008 there was a banking crash due to the accumulation of hidden and asymmetric risks within the system itself. Bankers, masters of risk transfer, were able to secure a steady flow of money by exploiting a series of hidden, explosive risks, using academic risk models that only work on paper (...), and then, following the collapse, invoking uncertainty (...)

Hayek (2010:65) explains that “The opportunities afforded by long-distance trade conferred a relative advantage on those communities that were prepared to grant their members the freedom to make use of personal information, over those in which it was the knowledge available at a collective level – or, at most, that held by the ruler of the moment – that determined the actions of all”.

In the words of Rüstow (1980:117, own translation):

“The market economy automatically rewards good economic performance and penalises poor performance; thus creating an autonomous system of booms and busts, free from political influence (...). The picture changes under a centralised economy or government planning. In such cases, the economy is managed by those who hold social and political power, and therefore there is no longer an independent economic mechanism capable of correcting existing social and *political* inequalities.”

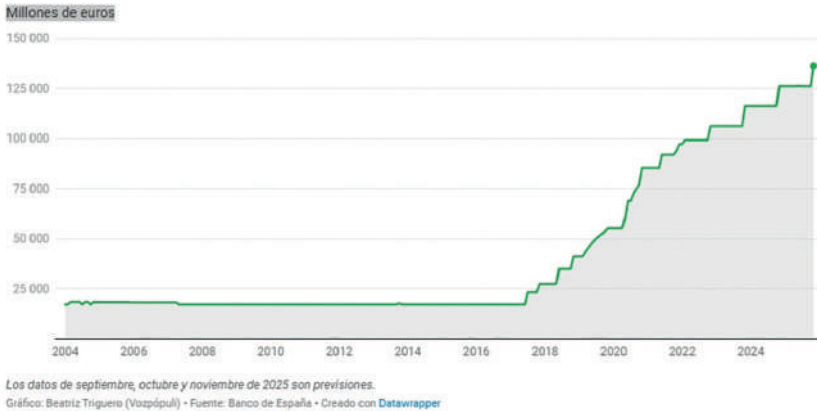
Centralised planning through the legislative and executive branches is not efficient because, as we have explained, the State cannot possess all the information that individuals subjectively generate through their human or business activities.

Further evidence of the lack of self-restraint on the part of the State’s powers and its agents is the constant rise in public debt to continue funding expenditure designed to appease voters—in this case, pensioners. Thus, as reported by the newspaper *Vozpopuli*, Spain’s Social Security debt is set to reach 136,000 million euros by 2025³¹, whereas in June 2027 it stood at 17,000 million euros, as shown in the graph:

and retaining their previous income (...). But it was the free market that came off worst, because the public, already predisposed to hate investors, began to link this system with forms of corruption and nepotism in the upper echelons, when in reality the exact opposite is true: it is the government, and not the markets, that enables these practices through its bailout mechanisms. And it is not just bailouts: in general, any government interference tends to involve the assumption of risk.” Ibid., p. 31.

³¹ Beatriz Triguero, *Vozpopuli*, 5 November 2025, *Social Security debt to rise to 136,000 million following the new pension loan: Social Security debt to rise to 136,000 million following the new pension loan* | *Vozpópuli*

CHART 1.
TREND IN SOCIAL SECURITY DEBT



Source: Beatriz Triguero (Vozpopuli), based on data from the Bank of Spain.

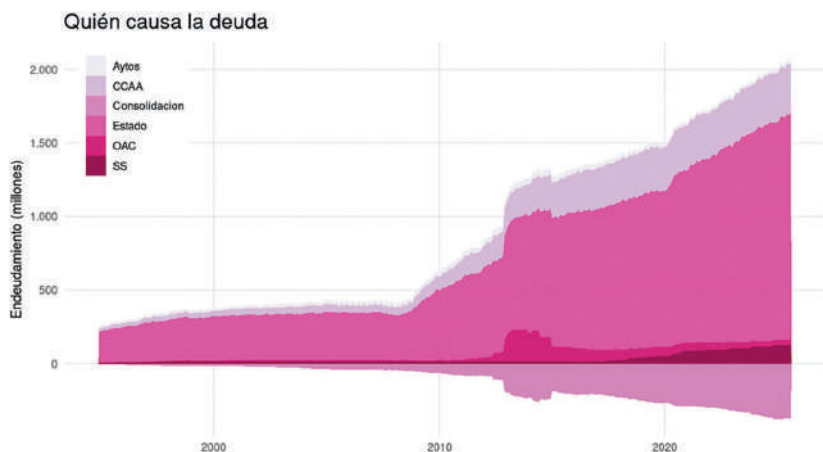
The State and its institutions, driven by a desire to appease captive voters, continue to increase social security contributions for employees and the self-employed by 7 per cent annually; yet, due to rising costs, they are unable to pay pensions and must therefore burden citizens with ever-increasing debt. As reported by *The Objective*, Spain has 53 dependants for every 100 workers, making the situation unsustainable³². Consequently, the State's very existence is based on appeasing the voters who depend on it (more than 10 million pensioners, more than 3.5 million public sector employees, public enterprises, regulated companies), so that the persistence of state powers (executive and legislative) only leads to greater public debt and a constant passing on of that debt in the form of higher taxes and money supply expansion, which results in a loss of purchasing power (12 per cent annually since 2021).

Rothbard (2013:206–213) points out that, for much of the nineteenth century, when there was hardly any increase in the money supply, 'prices were falling, and yet the economy was growing and industrialising. Falling prices do not constitute an absolute obstacle to

³² "The unsustainable demographic challenge: Spain now has 53 dependants for every 100 workers", *The Objective*, 6 November 2025.

business or economic prosperity. Therefore, falling prices are, apparently, part of the normal functioning of a growing market economy.” Thus, “inflation is not something inevitably embedded within the economy. (...) However, since the Second World War, the growth in the money supply—both in the United States and abroad—has been much faster than that of the supply of goods. The consequence is inflation.” In contrast, following the 2020 pandemic, the ECB’s policy of increasing the money supply and the EU’s policy of increasing public debt to inject the EU Next Generation funds (over 1 trillion euros) into the economy has caused inflation of more than 35 per cent in food and housing prices, and even higher inflation in industrial prices (in just four years). Specifically, the share of public debt borne by each Spaniard has soared **from 6,300 euros in 1994 to nearly 35,000 euros today**³³. In constant euro terms, this represents a 2.5-fold increase. The exponential rise in public debt in Spain is illustrated in this graph:

CHART 2.
GROWTH IN PUBLIC DEBT IN SPAIN 1994–2025



Source: Juan Manuel López Zafra, ‘You owe 35,000 euros more than you think, and you’ll have to pay it’, *The Objective*, 4 November 2025

³³ López Zafra, J.M., “You owe 35,000 euros more than you think, and you’ll have to pay it”, *The Objective*, 4 November 2025: You owe 35,000 euros more than you think, and you’ll have to pay it

What this state paternalism encourages is a refusal to take individual risks and an erosion of individual responsibility, so that citizens depend on the state in exchange for not being held accountable for their actions. But this does not come free of charge; it leads to citizens becoming indebted through government debt, monetary expansion and the banks' fractional reserve system, which distorts time preference and prevents prices from serving as an accurate signal, thereby causing systemic crises. Without individual responsibility, it is very difficult for capitalism—arising from spontaneous, free cooperation between individuals—to flourish.

Furthermore, such state coercion through the collection of taxes and social security contributions also funds a costly administrative apparatus comprising more than 3.5 million public sector employees, across **more than 4,850 public bodies** (at national, regional and local levels)³⁴. Consequently, this coercive interference in people's lives, through the transfer of income from the working population to the non-working population, in turn generates perverse effects on demographic trends, leading to a decline in the birth rate, and consequently leads the public pension system to become unsustainable, as demonstrated by the Spanish Court of Auditors' calculation that the Spanish Social Security deficit in 2025 will already amount to 100,000 million euros³⁵.

The restriction on economic freedom entailed by the compulsory collection of taxes and social security contributions not only undermines individuals' right to life, liberty and property, but is also economically unsustainable, given that it will be impossible to continue paying pensions averaging 2,000 euros a month to almost a third of the population whilst the working-age population continues to decline.

Since 2020, it has been reported that the number of people in Spain who depend on the state for their livelihood – through public sector wages, pensions or benefits – stands at over 20 million,

³⁴ This can be verified in the Inventory of Public Sector Bodies: Inventory of Public Sector Bodies (accessed on 12 March 2025); if downloaded as an Excel file, it lists these 4,850 public bodies.

³⁵ *El Economista*, 6 May 2025.

out of a total population of 48 million³⁶. Added to this is the fact that most of the large companies in the Ibex 35 are regulated enterprises (remuneration for electricity transmission and distribution activities; public-law obligations of electricity or telecommunications companies; construction firms dependent on public works; the banking and insurance sector supervised by the Bank of Spain and regulated by the State in terms of solvency and bail-outs, etc.). Furthermore, the EU has allowed the Spanish Government to control the purchase of shares in strategic sectors (more than 270 authorisation or supervision procedures according to El Economista over the last three years), to even veto such acquisitions (the takeover bid for Talgo), or to promote the State's entry into companies such as Telefónica, Indra and other regulated companies (electricity grid, natural gas, etc.) (through SEPI). This runs counter to the free movement of capital and services as set out in Articles 56 and 63 of the Treaty on the Functioning of the EU.

We might also mention the financial dependence of universities on the accreditation of their degree programmes by ANECA (the National Accreditation Agency), or of lecturers on their six-yearly performance reviews, or of the media (the State is the largest advertiser, followed by the regulated companies listed on the Ibex 35).

It has recently come to light that the Spanish Government will table a bill to restrict the establishment of private universities³⁷, a move that undoubtedly constitutes a limitation on the right to education enshrined in the European Charter of Fundamental Rights, which includes the right to establish educational institutions. This is yet another example of the lack of self-restraint on the part of the legislative and executive powers, which curtails any fundamental right and thus highlights the need for the abolition of these powers.

³⁶ 16 February 2025: <https://www.periodistadigital.com/economia/empleo/20250216/mitad-espana-vive-depende-ayuda-pension-o-salario-publico-noticia-689405060804/> (accessed 17 February 2025).

³⁷ **"The Government is taking steps to curb the establishment of private universities and calls for 'cracking down on fly-by-night operations that fail to meet standards'";** Sánchez announces that he will present a plan to tomorrow's Council of Ministers to 'tighten the criteria for the establishment, recognition and authorisation of higher education institutions'

El Mundo, 31 March 2025.

All of this constitutes state planning – whether through laws, regulations, subsidies or controls – which ensures that economic variables are influenced by the state or the central bank, thereby generating economic growth unsupported by real savings³⁸, leading to economic cycles and a lack of free cooperative processes in the market, and ultimately to the weakening or abolition of individual rights.

Even at the business level, all plans drawn *up in advance* regarding the evolution of income or social needs to be met are bound to fail, since, as Huerta de Soto and Mises explained in their *Human Action*, business knowledge is subjective and is generated through custom by the entrepreneur as they act and interact cooperatively with other individuals or entities, through a process of trial and error that discards failed projects as they are empirically proven to be unsuccessful. Only if individuals are able to explore and make mistakes can they generate new information that enables them to become more efficient and meet market needs; for if the State provides incentives, plans or imposes bans, it will be impossible for the individual, as an entrepreneur, to discover what can satisfy human needs³⁹.

Not only is such planning and coercive intervention immoral, but it is also inefficient, as demonstrated by the major power and

³⁸ Taleb explains that “GDP growth can easily be achieved by burdening future generations with debt and allowing the economy of the future to collapse due to the need to repay that debt. GDP growth, like cholesterol, appears to be a ‘Procrustean bed’-style reduction that has been used to manipulate systems. (...) Economic growth that is fraught with vulnerabilities should not be called growth, something that governments have yet to understand. During the golden age of the Industrial Revolution – the period that propelled Europe’s hegemony – growth was very modest, at less than 1 per cent. Yet even at that low level, it was robust growth, unlike the reckless race of so many modern states which, in their quest for growth, behave like teenage drivers drunk on speed.” Taleb, N. (2013:206–207).

³⁹ Thus, “In reality, thanks to a specific mechanism (technically known as the bias-variance dilemma), we often achieve better results when we make ‘mistakes’, for example when we slightly miss the target we are aiming at. In *Antifragile* I have shown that making certain kinds of mistakes is the most rational choice when the costs of those mistakes are negligible, because they lead us to make discoveries. Take this example: medical ‘discoveries’ are for the most part accidental. A world without mistakes would have neither penicillin nor chemotherapy. That is why I oppose the state telling us what we ‘must’ do: only evolution is capable of determining whether something ‘wrong’ is actually a mistake, provided that risk-taking allows us to choose”, Taleb (2019), op. cit., p. 304.

telecommunications blackout that affected the whole of Spain on 28 December 2025, without the Government or its state-owned company, Red Eléctrica de España, explaining why, suddenly, “at 12:33, 15 gigawatts (representing 60 per cent of demand at that time) were suddenly lost from the system in barely 15 seconds”, leaving homes without electricity or electronic communications, including public transport. Furthermore, the company responsible for operating the electricity system and the transmission grid, Red Eléctrica, is a company in which the State holds a 20 per cent stake and has controlling influence. The blackout and the absence of mobile networks for almost 24 hours mean that the country is not a safe place for investment. The anti-fragility of systems governed by the state and its public or regulated enterprises (the electricity and telecommunications systems) was demonstrated as a result of the planning of renewable energy projects funded by public debt, which led to 20 hours of chaos in Spain. What is more, in the absence of traffic lights, law enforcement officers and telecommunications, citizens demonstrated exemplary individual social cooperation, allowing vehicles to give way to pedestrians and cooperating to use vehicles to collect their children – in a spontaneous order far more effective than centralised planning.

This ‘chaos’—brought about by the State itself through the use of public funds to promote renewable energy without backing from other energy sources that had been demonised (nuclear, gas, coal, etc.)—caused serious hardship to citizens who were forced to abandon their vehicles on the roads and walk for kilometres to collect their children from school, as trains and underground services were unable to operate due to the power cut. It was thus demonstrated that, following the amnesty law and the major blackout, the institutional system is far more fragile than the systems of voluntary cooperation—free from state interference—that existed in ancient times.

As we have shown, the State and its officials (who enjoy a privileged status such that they cannot be removed from office), by failing to assume risks and instead externalising them onto the general population, are precisely those who do not guarantee freedoms, but rather undermine them through central planning. Moreover, it was these very officials who allowed the rule of law to be

undermined through the processing of the amnesty (court clerks) and who defend its application (crown prosecutors and judges), in defiance of the Constitution, Article 2 of the Treaty on European Union and the case law of the Court of Justice of the European Union. It was precisely this state planning—through billions in subsidies for renewable energy (drawn from European ‘*Next Generation EU*’ funds obtained through public debt), and the ban on CO₂ emissions and the promotion of the closure of nuclear and combined-cycle power stations, that caused the imbalances in the electricity system which led to the major power and telecommunications blackout of 28 and 29 April 2025.

As Hayek demonstrated in *The Fatal Conceit* (2013:483):

“The popularity of the idea that “it is always better to cooperate than to compete” demonstrates a general ignorance of the true organising function of the market. Cooperation, like solidarity, is only possible if there is a broad consensus not only on the ends to be achieved, but also on the means to be employed. In small groups — whose members share certain habits, knowledge and expectations — this is indeed possible, but it is hardly so when it comes to adapting to unknown circumstances. However, it is this adaptation to the unknown that underpins the coordination of efforts on a large scale. Competition is nothing other than an uninterrupted process of discovery, present in all evolution, which leads us to respond unconsciously to new situations. It is renewed competition, and not consensus, that increasingly enhances our effectiveness.”

In Taleb’s words (2013:483), entrepreneurs “tend to get things wrong and make mistakes (many mistakes). They are convex. What matters in their case, therefore, is the reward they derive from their successes”, but they stake something of their own for the sake of others, or put their heart and soul into the endeavour, without offloading the risk onto citizens so that they bear the consequences (which is what governments, legislators, planners and companies dependent on government subsidies do). No ruler or thousands of civil servants possess the capacity to understand reality a priori (what Hayek termed ‘constructivist rationalism’), for, as Hayek (2010:55) explains, ‘Man does not come into the world

endowed with wisdom, rationality and goodness: these must be taught to him; he must learn them. Morality is not the fruit of reason; rather, it was those processes of human interaction that fostered the corresponding moral order which enabled man to gradually develop not only reason but also that set of faculties with which we usually associate it".

The consequence is clear, as Hayek (2008:92) explained: "Only within this system (capitalism) is democracy possible, if by 'capitalism' we mean a system of competition based on the free disposal of private property. Once it comes to be dominated by a collectivist creed, democracy will inevitably destroy itself".

Despite the economic impossibility of socialism or central planning, as demonstrated by Mises, Hayek and Huerta de Soto—given that it is the individual who subjectively generates knowledge and opportunities as they act (the entrepreneurial function)—state intervention and control over individuals' lives is increasing, leading not only to a lack of freedoms but also to the impoverishment and unsustainability of institutions (the legislative and executive branches and the 4,850 associated public bodies), precisely due to the lack of self-restraint on the part of state powers. Those who oppose the market system (or the free cooperation of individuals without coercion) should apply Taleb's (2019:260) criterion: 'it is immoral to oppose the market system and not live in a hut or a cave situated far away from the *market*'

Therefore, the only way to guarantee free human action and entrepreneurial activity—where each individual discovers, through a process of trial and error, opportunities for personal growth⁴⁰—is to abolish the legislative and executive branches, as we shall explain, thereby preventing planning or intervention (including the abolition of the power to levy taxes)⁴¹.

⁴⁰ In Taleb's words, "it is preferable to have a genuine failure rather than a successful entrepreneur, because it is mistakes, scars and character flaws that make a person human". Taleb (2019: 177).

⁴¹ As Hayek explains (emphasis added): *The question raised by economic planning is not, therefore, merely whether we will be able to satisfy what we regard as our more or less important needs in the manner we prefer. It is whether we ourselves will decide what is more and what is less important to us, or whether this will be decided by the planner. Economic planning would not affect only those of our marginal needs that we have in mind when we*

6. The necessary abolition of the powers of the State to guarantee individual rights and the functioning of enterprise

Following the abolition of the rule of law and equality before the law by the amnesty act, as well as the abolition of community freedoms and the right to property, one might ask whether there is any legal means to guarantee the rights of individuals, a question we shall answer below.

At first glance, we might refer to civil disobedience on the part of judges (Thoreau, H 2012), on a case-by-case basis, but this would not prevent the suspension of legislative activity and the State's powers of declaratory and executive self-protection. It is true that the origin of the supremacy of the US Constitution of 1787 was not based on an express provision therein, but rather on the doctrine of 'implied powers' developed in the rulings of several judges in the late 18th century and consolidated in Justice Marshall's judgement in 'Marbury v Madison' in 1803, which established the ability of the courts (particularly the Supreme Court) to strike down unconstitutional laws from the legal system, in order to guarantee the supremacy of the Constitution as the fundamental law enshrining the individual rights of citizens.

Thus, for example, as Fernández Segado (2011:133) explains: 'In 1795, Justice Paterson, sitting as a member of a circuit court, in the well-known case of Van Horne's Lessee v. Dorrance, had already had the opportunity to declare a Pennsylvania state law unconstitutional, attaching to that declaration the effect of nullifying the legal text.'

speak disparagingly of the merely economic. It would in fact mean that, as individuals, we would no longer be allowed to decide what we regard as marginal. The authority directing all economic activity would intervene not only in that part of our lives concerning lesser matters: it would intervene in the allocation of the limited resources at our disposal for all our purposes. And whoever controls the whole of economic life controls the resources for all our purposes and, consequently, decides which of these are to be satisfied and which are not. This is truly the crucial issue. Economic control is not merely intervention in a sector of human life that can be separated from the rest; it is control of the means that serve all our ends, and whoever has total control over the means will also determine to which ends they are to be directed, which values are to be regarded as higher and which as lower: in short, what men ought to love and strive to attain." Ibid., pp. 105–106.

The case of *Calder v. Bull*, decided on 8 August 1798 by the votes of four Justices—Chase, Paterson, Iredell and Cushing, who delivered *their opinions seriatim*—was also to have particular constitutional significance. According to Fernández-Segado, this Supreme Court decision is based on the natural rights of the individual (regardless of the form in which they are codified):

“A section of legal scholarship has placed particular emphasis on the numerous references in Chase’s opinion to principles of natural law, emphasising that, despite his inclination to dismiss the claim, **his opinion is replete with suggestions regarding ‘natural rights limitations on legislatures, beyond the limits prescribed by the written Constitution’**, and, consistent with this, **Chase rejected not only the omnipotence of state legislatures, but also the notion that their power is absolute and unchecked, even where no specific clause in either the federal or state Constitutions provides for this.** In doing so, Chase, in line with previous decisions of the Supreme Court, helped to lay the foundations for judicial review. Chase’s opinion appeared to open the way for judicial review of laws not merely on the grounds that they contradicted specific constitutional provisions, but, **going beyond that, even on the grounds that they contradicted the principles of what we might call the ‘unwritten constitution’—for example, the principles of natural justice.**”

In his concurring *opinion*, which aligned with that of Justice Chase, Justice Iredell grounded the defence of the Constitution against acts of Parliament in the defence of the natural rights inherent to human beings, which predate any positive law:

“Iredell would begin by pointing out that if the Constitution did not impose limits on the legislative power, the inevitable consequence would be that ‘whatever the legislative power chose to enact, would be lawfully enacted, and the judicial power could never interpose to pronounce it void’⁴².

⁴² Fernández-Segado (2011:171). In that *seriatim opinion*, Judge Iredell stated that: ‘*If any act of Congress, or of the legislature of a state, violates those constitutional provisions, it is unquestionably void; though, I admit, that as the authority to declare it void is of a delicate and awful nature, the court will never resort to that authority, but in a clear*

The basis for this, of course, lies in the conception—inherited from the School of Salamanca—of individual rights to life, liberty and property as inalienable and part of the very essence of the human being, and naturally enshrined in a Constitution drawn up by the constituent power. This had already been set out in the Declaration of Independence of the United States of 1776 and in several of the bills of rights of the states that made up the Confederation.

In other words, the consolidation of the Constitution and individual rights in the late 18th century in the United States was the result of individual actions by judges of the United States Supreme Court, which is hardly to be expected within a continental and bureaucratic conception of judges as mere automatic enforcers of the law, even though the case law of the Court of Justice of the European Union (CJEU) would support the non-application of the Amnesty Act on the grounds that it contravenes Article 2 of the Treaty on the Functioning of the European Union (TFEU) (and Article 4 bis of Organic Law 6/1985 of 1 July on the Judiciary was itself amended a few years ago in accordance with the EU's requirements to stipulate that: "1. Judges and courts shall apply European Union law in accordance with the case law of the Court of Justice of the European Union").

As we have said, given the lack of a tradition amongst Spanish judges of disapplying national laws on the grounds of a breach of Article 2 of the TEU (the rule of law), the only effective and generally applicable means available to suspend the application of the Organic Law on Amnesty and guarantee the separation of powers would have been for the European Commission to have brought an infringement proceedings against Spain in 2024 for breaching Article 2 of the Treaty on European Union (rule of law, democracy and separation of powers), requesting the provisional suspension

and urgent case. If, on the other hand, the legislature of the Union, or the legislature of any member of the Union, shall pass a law, within the general scope of their constitutional power, the court cannot declare it to be void merely because it is, in their judgement, contrary to the principles of natural justice. The principles of natural justice are not governed by any fixed standard: even the most capable and upright men have differed on the subject; and all that the court could properly say, in such an event, would be that the legislature (possessing an equal right to form an opinion) had passed an act which, in the judges' opinion, was inconsistent with the abstract principles of natural justice."

of the Organic Law before the CJEU, as the European Commission did in the case of a law on the retirement of judges from the Polish Judicial Council (Case 791/19, the Order of the Court of Justice of the European Union of 8 April 2020).

However, the current European Commission, comprising the European People's Party and the Party of European Socialists, has refused to apply Article 2 of the Treaty on the Functioning of the European Union in relation to the Amnesty Act and has not brought any infringement proceedings against Spain. At most, the judges could apply

As the Amnesty Organic Law entails a derived power such as the legislature en masse overturning court judgements to favour certain politicians, and consequently the right to equality before the law, it brings about a return to a 'state of nature', hollowing out the sovereignty of the constituent power that adopted the Constitution, and undermining the principles of the supremacy of the Constitution, the hierarchy of norms and the democratic legitimacy of power.

Therefore, if it has not been possible to prevent the destruction of the Constitution by the Organic Law on Amnesty – promoted by the Government on the basis of its investiture pact with the parties that supported that secessionist coup d'état – it is clear that the actions of individuals in positions of state power have circumvented the Constitution, without the constitutional provisions being able to prevent it. To paraphrase Norberto Bobbio's phrase ("*Government of men or government of laws*"⁴³), it would appear that we have a government of men, and that there is no such thing as a government of laws (of the Constitution as the supreme law, as advocated by the founding fathers of the USA).

This⁴⁴ totalitarian drift (he who can do the most can do the least) has continued with a bill tabled by the PSOE in January 2025 to abolish private prosecution, remove the offence of religious hate, and prevent judges from initiating investigations based on

⁴³ Chapter 7 of Bobbio, Norberto (1985), *El futuro de la democracia*, Plaza Janés Editores, Barcelona, 1985.

⁴⁴ The term 'derivas' was first coined by Alejandro Nieto (2002) in his work *El des-gobierno de lo público*, Ariel, Madrid.

journalistic reports, under threat of disciplinary measures by the General Council of the Judiciary.

To this must be added, as we have explained, the government's acquisition of controlling stakes in strategic companies (with the appointment of board members) such as Indra (which processes election results) or Telefónica. Regarding the latter, we have witnessed the quasi-Soviet or totalitarian spectacle of the Government's dismissal of Telefónica's chairman, after the chairman in question was summoned to the Moncloa Palace, together with the other shareholders (*Palleté was sacked at Moncloa in the presence of the heads of Criteria Caixa and STC*⁴⁵). In other words, the government is acquiring shareholdings in companies that are strategic for security and electoral processes (Indra), or for telecommunications (Telefónica, the company that can decide whether to refuse, before a judge, to hand over messages or communications from the mobile phone of the under-investigation Attorney General, or the company that controls the majority of the radio spectrum and has a powerful audiovisual and communications project), and, furthermore, it can dismiss and appoint their chairpersons, through a controlling stake. This is clearly a derogation from the European freedoms of the free movement of capital, companies and persons, which form the basis of the EU project (Articles 63 to 66 of the Treaty on the Functioning of the EU) and of the case law of the Court of Justice of the European Union⁴⁶, and which, in the wake

⁴⁵ Vozpopuli, 19 January 2025: Palleté was sacked at Moncloa in the presence of the heads of CriteriaCaixa and STC | Vozpópuli

⁴⁶ As in the CJEU judgment of 17 July 2008 (Case C-207/07): *The European Commission has decided to remind Spain of its obligation to comply with a judgment of the Court of Justice of 17 July 2008, according to which certain provisions of the legislation extending the powers of the National Energy Commission (CNE), in so far as they establish a system of prior administrative approval, constitute a breach by Spain of its obligations under the Treaty provisions relating to the free movement of capital (Article 56) and the right of establishment. The request for information on Spain's compliance with the Court's judgment takes the form of a 'letter of formal notice', within the framework of the EC Treaty infringement procedure applicable in the event of failure to comply with a judgment of the Court of Justice (Article 228).* European Commission press release of 29 October 2009 (accessed on 19 January 2025): https://ec.europa.eu/commission/presscorner/detail/es/ip_09_1628. In Judgment 145/2012 of 30 July, the Constitutional Court quashed a judgment of the National High Court and ordered the Spanish Government to refund the fine to Iberdrola on the grounds that making the purchase of shares on the common market subject to

of the pandemic, have been undermined by the EU itself, by allowing governments to veto share acquisitions on the discretionary grounds of 'strategic security' (a provision which was used by the Socialist government to block a takeover bid for Talgo by a Hungarian company).

Consequently, given the *de facto* absence of freedom of enterprise and the right to private property, coupled with the mass repeal of court rulings by the Amnesty Act, it is necessary to analyse whether constitutional law can act as a sufficient check on the actions of the derived powers (legislative and executive) or the inaction of the neutral power of the Head of State (who has failed to guarantee the continued existence of the democratic rule of law).

7. How can individual rights be protected against the actions of the derived powers?

In the absence of a Constitution (stemming from the lack of constitutional supremacy and the separation of powers following the Amnesty Act, as well as the division of influence between the two major parties within the General Council of the Judiciary (CGPJ), which appoints the majority of Spanish judges⁴⁷), only a constituent process can restore citizens' inalienable individual rights, drawing on the theories of 'tyrannicide' put forward by the Spanish scholastics⁴⁸ (Suárez⁴⁹, Mariana⁵⁰, Francisco de Vitoria), which Locke later

authorisation was contrary to the case law of the CJEU. Available at: https://www.boe.es/diario_boe/txt.php?id=BOE-A-2012-10258

⁴⁷ On 23 July 2024, the Plenary Session of Congress agreed to approve and refer to the Senate the draft Organic Law amending Organic Law 6/1985 of 1 July on the Judiciary and amending Law 50/1981 of 30 December, which regulates the Organic Statute of the Public Prosecutor's Office, tabled by the People's Party and Socialist parliamentary groups in the Congress (BOCG of 2 July 2024): Available at https://www.congreso.es/public_oficiales/L15/CONG/BOCG/B/BOCG-15-B-130-1.PDF

⁴⁸ For a summary of the theories of the natural rights of the individual put forward by these scholastics, see the study by Gómez Rivas, L. (2008).

⁴⁹ Font Oporto, P. (2013).

⁵⁰ Merle, Alexandre (2014).

formulated in his 'right of rebellion' in the Second Treatise on Civil Government⁵¹.

The Austrian School of social sciences (particularly Rothbard) has been reluctant to acknowledge the existence of a 'social contract' or constituent power that would allow the guarantee of individual rights to be delegated to an institution external to individuals⁵². Rothbard himself (2020: 177) quotes Ortega y Gasset from *The Revolt of the Masses* on how the inaction of individuals leads to the consolidation of tyranny:

"Civilisation is not something that simply exists; it does not sustain itself. It is artificial ... If you wish to reap the benefits of civilisation but do not concern yourself with sustaining it ... you will destroy it. Before you know it, civilisation is gone. A moment's inattention, and when you look around, everything has vanished! As if the curtains concealing pure Nature had been drawn back, the primeval forest reappears in its virgin state."

Huerta de Soto makes it clear, in line with the 16th-century Spanish scholastics (or the US Declaration of Independence of 1776), that individual rights exist prior to the State, and that the abolition of state structures does not entail the abolition of those rights. In other words, the law must exist even if the State is abolished (2017:18) (emphasis added):

⁵¹ According to Locke, it is princes who are generally most prone to violating the rights of their subjects, 'as if those who, by law, enjoy the greatest privileges and advantages, were thereby empowered to break those very laws that placed them in a better position than their fellow citizens'. In the event of such violations of the natural rights of subjects, it is the government that "places itself in a state of war with those against whom that force is employed" (today we would call this declaratory and executive self-protection); and in such a state, all previous agreements cease to be valid". It is the rulers who, "when they act contrary to the purpose for which they were instituted (...) are in fact bringing about a state of war (...); and they sever the social bonds (...), and destroy the authority which the people conferred upon them". In such a situation, the people have the right to rebel in order to restore their natural rights, for "all the bloodshed, all the plunder and all the desolation that the collapse of governments brings upon a country" must be attributed to those who rebelled from above by violating natural rights—that is, to the government itself. Locke (2004: 227–232).

⁵² According to Rothbard: "The State has never been created through a 'social contract'; it has always arisen from conquest and exploitation", Rothbard (2000), op. cit.

“The legal system is the evolutionary manifestation that incorporates the general principles of law (particularly those relating to property) which are compatible with human nature. The law, therefore, is not what the state decides (whether democratically or not), but rather it exists, embedded in human nature, even though it is discovered and consolidated through case law and, above all, through legal doctrine in an evolutionary manner (in this regard, we consider that the legal system of the Roman and continental tradition, due to its more abstract and doctrinal nature, is far superior to the Anglo-Saxon common law system, which arises from disproportionate state backing for judicial decisions or rulings which, through ‘binding precedent’, introduce into the legal system all manner of dysfunctions stemming from the particular circumstances and interests that prevail in each case). Law is evolutionary and customary and, therefore, predates and is independent of the state; it does not require any agency with a monopoly on coercion for its definition and discovery.”⁵³

Huerta de Soto, whilst recognising that natural rights are inherent to human beings and pre-exist any social order, also acknowledges that these rights must be refined and specified through case law; in other words, he recognises the need for impartial judges or arbitrators to determine how human disputes are resolved when those natural rights are at stake (which does not mean that these arbitrators are dependent on a State).

And secondly, when Huerta de Soto rightly considers the Roman tradition’s system of rights protection to be more appropriate, as opposed to the British common *law* system, he is not denigrating the US Constitution of 1787, nor the case law of the Supreme Court which protects those individual rights⁵⁴, but rather, in a

⁵³ ‘For there is nothing more unjust, immoral and contrary to ethics than imposing equality by force, since man has an inalienable natural right to devise new ends and to reap the rewards he creates through his own entrepreneurial creativity’ (Huerta de Soto, 2020: 392, footnote 49).

⁵⁴ Recent examples from 2024 include the judgement in *Loper Bright Enterprises v. Raimondo, Secretary of Commerce, et al*, in which the Supreme Court held that government reports do not enjoy a presumption of truthfulness, but that in a trial the reports of the parties must be treated equally. The full judgement can be accessed here: https://www.supremecourt.gov/opinions/23pdf/22-451_7m58.pdf (accessed 25 November 2024). Also, the aforementioned *SEC v. Jarkesy* judgment, in which the Supreme Court

sense, considering that, in contrast to the British system's lack of a constitution, it is necessary to guarantee individual rights against political power in a codification (such as the Digest promulgated in 533 by Justinian I), which today is the Constitution.

Ayn Rand also argued in her works *Capitalism: The Unknown Ideal* (1967) and *The Virtue of Selfishness* (1964) for the need for an arbiter external to individuals to enable the resolution of disputes regarding the fulfilment of contracts, as a guarantee of the legitimate trust required for capitalism to function⁵⁵.

We might say that, given that the Constitution sets out a list of individual rights (which, according to the Austrian School, consist of life, liberty and property), we believe it is essential to guarantee its supremacy in order to be able to invoke those rights against the State, thereby preventing the State from using coercive force against individuals. This necessity of the Constitution is clearly illustrated when the US Supreme Court, in its judgement in *SEC v. Jarkesy* (2024), ruled that only a jury (composed of citizens) may authorise the imposition of penalties on companies, in accordance with the Seventh Amendment to the Constitution of 1787, or in its judgement in *Loper Bright Enterprises v. Raimondo. Secretary of Commerce, et al*, the US Supreme Court stated (p. 35): "And when a particular statute delegates authority to an agency consistent with constitutional limits, courts must respect the delegation, whilst ensuring that the agency acts within it. But courts need not, and under the APA may not, defer to an agency's interpretation of the law simply because a statute is ambiguous. In this regard, the existence of a Constitution does not presuppose the existence of a State; that is to say, the guarantee of the Constitution is not

declares the Dodd-Frank Act of 2010 unconstitutional because it grants the SEC the power to impose penalties on individuals, whereas only a jury may validate the imposition of penalties and sanctions on individuals in accordance with the Seventh Amendment to the US Constitution of 1787 (therefore, the Supreme Court does not recognise the State's executive power to impose sanctions on its own authority, a power which, regrettably, remains in force in Spain).

⁵⁵ "The protection and enforcement of contracts through civil law is the most crucial need of a peaceful society; without such protection, no civilisation could be developed or maintained". Rand, Ayn (1963) "The Nature of Government", The Objectivist Newsletter.

contrary to the libertarian ideal of the elimination of state structures”.

It is precisely the Constitution, conceived in the terms of the founding fathers of the USA (the Declaration of Independence of 1776 and the Constitution of 1787), that acts as a check enacted by citizens against the encroachment of institutions upon individual rights. Strictly speaking, the existence of a Constitution does not prevent the abolition of taxes, state coercion, etc. The Constitution can be protected by impartial arbiters (judges), who need not be dependent on the State, and whose salaries could be derived from court fees paid by citizens who need to bring cases before them. A system similar to that currently in place for Land Registrars, whose decisions constitute ‘public registry records’; their fees do not depend on the public budget but on voluntary payments from citizens who wish to make use of these public registry records.

Consequently, the reinstatement of a minimal Constitution is necessary to prevent coercion by entities external to individuals, as well as to guarantee this through certain bodies which we summarise here briefly (the Head of State and independent judges with the power to set aside laws contrary to the Constitution).

8. Proposal to abolish the powers of the State in order to safeguard human agency and the role of enterprise

What the powers of the State have brought about can only be halted through a constituent power that guarantees a society without powers. It must be a defence of the common man of whom Chesterton (1996) spoke, a restoration of equality before the law and of the independence of the judiciary that guarantees it (a judiciary which, of course, should not be appointed by the legislature nor on the proposal of the executive, but should be selected through examinations administered by the judicial service, or be voluntarily elected by citizens from among jurists of recognised competence⁵⁶).

⁵⁶ In some US states, the popular election of judges is grounded in Thomas Jefferson’s doctrine, in accordance with the system of checks and balances, and on the argument that the only effective safeguard against abuses of power was the power of the

Of course, this task of constitutional reconstruction is something that must permeate the legal community (lawyers, judges, civil servants, Members of Parliament) and other spheres. It is the task of many ordinary people to put an end to this process of destroying the Constitution from within, just as it was Samsagaz Gamyi, a humble but honourable hobbit, and not the great kings of men or elves, who managed to bring the Ring to its destruction (Tolkien, 1999).

The restoration of constitutional democracy requires a constant legal struggle by all those involved, even if the expected results are not achieved in the short term.

The Jesuit Tomás Morales (2004: 97) spoke of ‘never tiring of always starting afresh, even if the objective never seems to be achieved’. I am therefore aware that this proposal for constitutional changes – which affect even the Head of State, the judiciary, the Constitutional Court and the Spanish Parliament – will generate scepticism or rejection within the legal community, as it affects either privileges or the *status quo* on which many people depend, and will bring me neither favour nor personal gain. However, five centuries ago, Francisco de Vitoria⁵⁷, Francisco Suárez⁵⁸ and Juan de Mariana⁵⁹ all set out their theories on the natural rights of man

electorate, applied to the three branches of government—legislative, executive and judicial—whose members should be elected by frequent votes. On the popular election of judges, see Corva, M.A. (2017).

⁵⁷ Initially, following the Americanist Re-elections (January and June 1539), Emperor Charles V reacted with suspicion and even acrimony, going so far as to prohibit the discussion of this matter in academic circles (November 1539). Some time later, having ascertained that Vitoria’s doctrines did not infringe upon his American rights, and recognising the significance and depth of those doctrines, he held Vitoria in such high esteem that he appointed him as imperial theologian for the Council of Trent (1545). See Hernández Martín, R. (1995).

⁵⁸ “For this very reason, following the publication of his work in 1613, James I launched a new campaign of direct attack on Rome. Precisely for this reason, he would ensure that Suárez’s work was refuted by the Oxford doctors, alongside that of Belarmine, and it was also burned in London and banned throughout England”. Pena González, M.A. (2018:54).

⁵⁹ As Benegas Lynch recounts: “Calzada begins his account by describing Mariana’s arrest at the Society of Jesus in Toledo on 8 September 1609, on the orders of the Bishop of the Canary Islands, Francisco de Sosa, ‘whom the king had appointed as judge in the case against the troublesome thinker’.” Prior to that, the Inquisition had

and suffered reprisals from various kings (although Charles V later acknowledged to Vitoria the sincerity and erudition of his proposals); and more than 400 years later, they were rediscovered as the fathers of individual rights or of the Austrian School. We must not, therefore, be daunted by supposed reprisals, for, albeit belatedly, the truth always prevails.

As Ortega y Gasset recalled in his *España invertebrada*: ‘To live is something that is done moving forwards; it is an activity that extends from this very moment to the immediate future. (...) In the ineffable secret of hearts, a fateful vote is cast every day that decides whether a nation can truly continue to be a nation’ (2000:326).

We cannot continue to look the other way as if the 1978 Constitution were still being upheld by the public authorities; we must ‘purify’ our legal order in order to restore constitutional democracy. We therefore need a new constitutional impetus grounded in constituent power.

This process of constitutional reform should have the following aspects as its fundamental pillars (which I have described in greater detail in a book I hope will be published shortly):

taken him to a cell to give evidence before the inquisitors regarding his latest book (...) Towards the end of his thoroughly documented essay, Gabriel Calzada returns to what he said at the beginning regarding Mariana’s arrest on that fateful 8 September 1609, at the age of 73, after decades of study, research and teaching, and states that the scholar learnt there ‘one of the most bitter lessons of his life: if one is prepared to stand up to political power, in defence of individual freedoms and private property, one must be prepared for the possibility of being abandoned by one’s friends and even by the institutions one has served all one’s life. Such was, for example, the case of the Society of Jesus, to which Mariana had devoted, with talent and dedication, the last 55 years of his life’. The trial took place in Madrid, on the basis of thirteen charges brought by the prosecutors, the central tenet of which was ‘denying the king’s right to change the currency’. Father Mariana personally took charge of his own defence, presenting extensive and well-founded arguments; in response, the prosecution added new charges relating to Mariana’s insolence towards the authorities and his superiors. The monarchy sought a conviction for ‘lèse-majesté’ and ‘ordered its ambassadors to buy up and seize as many copies of the book as possible in order to burn them’, but ultimately they had to release Mariana, as the evidence against him gradually weakened, along with the support for keeping him in custody. Bearing the anguish of what he had endured in solitude, he returned to Toledo without writing anything further on the matters that had kept him awake at night regarding the abuses of power.” Benegas Lynch, A. (2019). Benegas Lynch draws the facts of the trial against Juan de Mariana from the essay by Calzada, G. (2019).

1. The drafting of the Constitution through constituent power. A direct electoral system based on constituencies. Following the adoption of the Constitution by popular referendum, this Assembly would hold no legislative functions; only by a two-thirds majority could it exercise (i) advisory functions – at the request of the Head of State – (ii) call elections for new constituent assemblies, (iii) authorise the Head of State to commence negotiations on international treaties, ratify their text and call a popular referendum for ratification, and (iv) in the event of a territorial invasion or armed insurrection, grant the Head of State authority to coordinate police forces under the supervision of the Supreme Court, and call up volunteers for a defence force under the command of the Head of State, subject to the oversight of the Assembly and the Supreme Court.
2. Establishment of courts consisting of juries of citizens guided by district judges as the sole institution guaranteeing the Constitution, with a Supreme Court to ensure the uniform application of legal principles. These courts would be funded by commercial fees paid by those seeking justice, and citizens could choose the most efficient court in each municipality, resulting in effective competition between courts to serve the public. The commercial fees would fund not only the judges and citizen juries but also the police forces directed by the courts to enforce judgments or provide immediate safeguards for the rights to life, liberty and property.
3. An elected Head of State every seven years to (i) guarantee the supremacy of the Constitution against violations of fundamental rights by judges or by the Constituent Assembly, (ii) conduct foreign relations, (iii) the negotiation of international treaties, subject to prior authorisation by two-thirds of the Constituent Assembly and their ratification following confirmation by that Assembly and a popular referendum, and (iv) in cases of territorial invasion or armed insurrection, the coordination of court police forces and the call-up of military volunteers, subject to prior authorisation by two-thirds of the existing Constituent Assembly.

4. To integrate the Constitutional Court into a Chamber of the Supreme Court, as the ultimate interpreter of the Constitution and guarantor of individual rights; this Chamber would consist of 12 judges elected from among judges and legal professionals with more than 15 years' experience, with the election to be conducted by a committee chosen by lot from among judges with more than 20 years' experience.
5. Abolish the General Council of the Judiciary, so that the judiciary would consist of district judges appointed through competitive examination (who would preside over lay juries) and a Supreme Court elected by the judges themselves from among judges with more than 15 years' experience and a ten-year term of office; this Supreme Court would have the function of unifying legal doctrine and would also include that special constitutional chamber with a three-year term of office.
6. Diffuse constitutional review: any court (comprising the jury and the judge) would have the power to set aside any legislation or action that is contrary to the Constitution.
7. The absence of legislative and administrative structures in the Constitution beyond judges and the local police under their command: the abolition of laws, taxes and other coercive measures of the State.
8. The abolition of declaratory and executive powers of self-governance, given the absence of such State powers and coercive taxation, with judges, jurors and police officers being funded through voluntary contributions in each district or locality
9. The possibility of coordinating the maintenance and management of communal facilities at district, neighbourhood or village level, through the election of representatives by residents' associations and by means of contributions from each resident. The provision of functions currently carried out by the State would always be private. Payment for water, electricity, gas, refuse collection or fire service would be made by each property owner, via contributions to residents' associations. The costs of maintaining communal

facilities such as parks, pavements, public roads, fire stations, rivers, sports grounds, libraries and cultural centres would be met by renting out the vast stock of public buildings owned by the State, regional and local governments, which are located in every district or locality.

10. The obsolescence of a standing army to guarantee the absence of coercion against individual rights, with recourse only to police forces directed by the courts and the calling up of reservists in the event of an armed invasion, subject to prior authorisation by two-thirds of the constituent assembly and coordinated by the Head of State.
11. The necessary elimination of credit expansion through the abolition of the Central Bank and the fractional reserve system of banks. The gold standard, the absence of legal tender and monetary freedom.
12. The introduction of a 100 per cent reserve requirement for banks to guarantee deposit contracts, and the elimination of the possibility of creating unbacked credit.
13. The absence of a central bank, in order to prevent any centralised cuts in interest rates and avoid the credit expansion encouraged by the current legislative and executive branches.
14. The absence of a monopoly on currency issuance following the abolition of the State and the Central Bank.
15. The gold standard as a solution to the state's monopoly on money creation, with banks acting as custodians of the gold backing citizens' deposits, and those banks being able to issue paper money backed by the gold in their custody.

9. Conclusion

With these proposals, I have sought to explain how it is possible to reconcile the Austrian School's views on the subjective rights of the individual and the harmful effects of state power upon them, with the need for such rights to be enumerated in a Constitution that can be defended by bodies external to state power (juries presided over by judges independent of the legislative and executive branches).

It is clear that this requires recourse to constituent power, which is necessary given that, following the Organic Law on Amnesty, the 1978 Constitution was repealed, as judicial rulings were annulled en masse and, consequently, the rule of law established by the Spanish constituent power in 1978 was undermined. Only if we wage the struggle for the Law as articulated by Jhering will we be able to preserve our inalienable natural rights in the face of political power, including the rights to liberty and property that are essential to the functioning of business and the free exercise of human activity without coercion.

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STRUCTURAL LIBERALIZATION AND FISCAL CONSOLIDATION UNDER JAVIER MILEI

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Abstract: This paper examines Argentina's fiscal consolidation under Javier Milei from December 2023 through May 2026. It analyzes how the administration attempted to restore fiscal credibility through expenditure restraint, subsidy reduction, public-sector retrenchment, federal-provincial realignment, tax reorganization, debt restructuring, IMF-supported financing, and privatization initiatives. Structural liberalization is considered insofar as it supported fiscal adjustment by affecting relative-price correction, formalization incentives, investment conditions, and the private sector's capacity to absorb resources released from the state. Drawing on official fiscal and labor-market statistics, legal and policy documents, reform decrees, government communications, contemporaneous reporting, and secondary economic analysis, the paper evaluates the mechanisms, sequencing, and constraints of Argentina's post-crisis fiscal adjustment. The findings suggest a fiscally coherent but politically fragile reform process marked by a rapid primary-balance turnaround, significant state retrenchment, and continued dependence on debt restructuring and external financing conditions. The evidence remains institutionally suggestive rather than causal due to the short observation period, recessionary adjustment costs, social strain, and the simultaneous implementation of fiscal, monetary, regulatory, and political reforms.

Keywords: Argentina; fiscal consolidation; public expenditure; tax reform; Javier Milei.

JEL Classification: E31 - Price Level; Inflation; Deflation. E62 - Fiscal Policy. H11 - Structure, Scope, and Performance of Government. H30 - Fiscal Policies and Behavior of Economic Agents. H50 - National Government Expenditures and Related Policies. H60 - National Budget, Deficit, and Debt. H77

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1. Introduction

Argentina's economic crisis at the end of 2023 was not merely a monetary crisis. It was the visible culmination of a deeper fiscal and institutional deterioration: persistent public deficits, high and accelerating inflation, fragmented taxation, pervasive price and capital controls, weak contract enforcement, rigid labor institutions, discretionary public spending, and a state sector whose fiscal claims increasingly exceeded the productive capacity of the private economy. These distortions did not emerge in isolation. They reflected a long trajectory of policy instability, interventionism, fiscal dominance, and recurring emergency governance, in which successive governments attempted to contain the symptoms of economic decline through controls, subsidies, monetary expansion, and discretionary redistribution rather than through durable institutional correction.

The election of Javier Milei in 2023 marked a rupture not only in Argentine politics, but also in the fiscal logic through which Argentina's crisis could be interpreted. Public attention has often focused on Milei's monetary proposals, above all dollarization and the abolition of the Banco Central de la República Argentina. Yet the early reform sequence after December 2023 cannot be understood through monetary policy alone. Before full monetary normalization could occur, the government attempted to alter the fiscal and real-side foundations of the economy: reducing the fiscal deficit, shrinking the public sector, cutting subsidies, limiting discretionary federal transfers, reorganizing selected taxes, restoring greater contractual freedom in several markets, and preparing or initiating privatization in state-dominated sectors. The central question is therefore not only whether Argentina could stabilize its currency, but whether fiscal consolidation could become

credible in an economy long characterized by deficit monetization, political discretion, and structurally weak public finances.

This paper examines Argentina's fiscal consolidation under Javier Milei from December 2023 to 2026, while treating structural liberalization as a supporting institutional condition of fiscal adjustment. It analyzes how the Milei administration attempted to restore fiscal credibility through expenditure restraint, public-sector retrenchment, subsidy reduction, federal-provincial realignment, tax reorganization, debt management, and privatization initiatives. Labor-market reform, rental and land-market deregulation, and broader liberalization measures are included only insofar as they affect the fiscal adjustment process: by influencing public expenditure, formalization incentives, investment conditions, relative-price correction, or the capacity of the private sector to absorb resources released from the state sector.

The paper's guiding research question is: How did the Milei administration attempt to restore fiscal credibility in Argentina after December 2023, and what early evidence exists regarding the mechanisms, limits, and institutional constraints of this consolidation? The argument is not that Argentina had already achieved a fully consolidated liberal economic order by 2026. Rather, the paper evaluates whether the reform architecture was internally coherent, whether the fiscal adjustment was institutionally plausible, and whether early indicators point toward a mechanism of transition away from discretionary crisis management toward harder budget constraints.

Conceptually, the paper treats fiscal consolidation and selected structural liberalization measures as mutually reinforcing rather than separate reform fields. Fiscal consolidation reduces the need for monetary financing, debt monetization, financial repression, and politically allocated credit. Structural liberalization, in turn, can improve the informational role of prices, lower barriers to entry, strengthen contractual autonomy, and broaden the space for private-sector adjustment. Without fiscal consolidation, deregulation remains vulnerable to reversal because governments under deficit pressure tend to reintroduce controls, taxes, subsidies, and discretionary interventions. Without at least some structural liberalization, fiscal austerity risks remaining a purely contractionary

exercise, because the private sector may be too constrained to absorb labor, capital, and entrepreneurial initiative released from the public sector. The interaction between these two reform dimensions is therefore central to understanding the Milei administration's early fiscal strategy.

The paper is situated within an institutional and Austrian political-economy perspective. Argentina's long-run stagnation is interpreted not only as a problem of aggregate demand management or temporary policy error, but as a consequence of distorted incentives, unstable rules, weakened property rights, fiscal illusion, and the erosion of monetary and contractual credibility. From this perspective, inflation is not only a price-level phenomenon but also a manifestation of fiscal dominance and institutional weakness. Similarly, labor-market rigidity, rent controls, export taxes, state-owned enterprises, and discretionary federal transfers are not isolated policy instruments, but components of a broader system that suppresses market coordination and shifts resources toward politically protected uses. Fiscal consolidation under these conditions is therefore not merely an accounting exercise; it is an institutional attempt to change the constraints under which political actors, public agencies, provinces, firms, and households make decisions.

Methodologically, the article adopts a descriptive and institutional case-study approach. It reconstructs Argentina's fiscal consolidation under Javier Milei by combining official fiscal and labor-market statistics, legal and policy documents, reform decrees, government communications, contemporaneous reporting, and secondary economic analysis. The paper does not seek to provide econometric causal identification. Given the short observation period, the simultaneity of fiscal, monetary, regulatory, and political reforms, and the recessionary adjustment context, the evidence is interpreted cautiously. The analysis therefore focuses on reform sequencing, institutional mechanisms, internal consistency, political constraints, and early observable outcome patterns. Its conclusions are best understood as institutionally suggestive rather than causally conclusive.

The contribution of this paper is threefold. First, it provides an early fiscal-institutional account of Milei's consolidation strategy, focusing on how the government attempted to replace deficit

monetization and discretionary fiscal federalism with a harder-budget-constraint regime. Second, it connects expenditure restraint, subsidy cuts, public-sector retrenchment, tax reorganization, debt management, and privatization within a single framework of fiscal credibility. Third, it showcases why selected structural liberalization measures matter for fiscal consolidation: not as a separate reform narrative, but as part of the institutional environment that determines whether austerity can move beyond short-term expenditure compression toward durable fiscal adjustment.

The findings suggest that Milei's early reform package was fiscally coherent and produced several observable short-term effects: a rapid primary fiscal turnaround, significant public-sector retrenchment, lower subsidy burdens, reduced discretionary transfers, selected tax simplification, and a political shift toward privatization and expenditure discipline. At the same time, the results remain incomplete and politically fragile. The adjustment was accompanied by recessionary costs, social strain, employment losses in several sectors, high poverty during the initial shock, and continuing legislative constraints. Moreover, several reform areas remained partial, delayed, or dependent on further congressional support. The paper therefore distinguishes between fiscal correction, fiscal credibility, and fiscal consolidation: the first can occur quickly through cuts, the second requires institutional trust, and the third depends on whether the new constraints become durable.

The remainder of the paper is structured as follows. Section 2 reconstructs Argentina's fiscal preconditions before Milei, including the historical roots of deficit finance, fiscal instability, and interventionist crisis management. Section 3 examines Milei's government, political mandate, fiscal reform strategy, and selected structural measures insofar as they support fiscal consolidation. Section 4 analyzes the core fiscal consolidation program, including expenditure cuts, subsidy removal, federal-provincial realignment, tax changes, debt constraints, and privatization initiatives. Section 5 discusses implications for Argentina and further research through an institutional and Austrian political-economy lens, with particular attention to fiscal dominance, hard budget

constraints, public choice, price signals, and the analytically separate question of monetary restabilization. Section 6 concludes.

2. Argentina's Fiscal Preconditions

"No hay plata." With this blunt verdict – there is no money – Javier Milei set not only the tone of his inaugural address (Casa Rosada 2023), but his presidential platform to overcome Argentina's prior inflationary and interventionist fiscal model by replacing decades of deficit finance, discretionary redistribution, and monetary accommodation with market discipline and institutional constraints. This section reconstructs the historical and fiscal preconditions that shaped Argentina before Milei's ascent to power. It does *not* provide a full economic history of the country, but does rather focus on the gradual emergence of the institutional pattern that became central to Argentina's pre-2023 predicament: recurrent fiscal imbalance, monetary financing, interventionist controls, weak property-rights credibility, and a state sector whose political commitments increasingly exceeded its sustainable revenue base.

2.1. *Historical Roots of Argentina's Fiscal and Institutional Predicament*

The Rise of Argentina's Economy

At the beginning of World War I, Argentina ranked among the world's wealthiest nations, benefiting from sustained growth, institutional modernization, and integration into global trade (Spruk 2019, p. 1). Since its 1853 Constitution, it had developed into a largely laissez-faire economy with a strong central government and comparatively secure property rights, giving rise to the "Belle Époque" as a period of particularly high economic growth (Spruk 2019, p. 4). Argentina attracted many European immigrants in the late nineteenth and early twentieth centuries, drawn by its economic opportunity and political stability (Spruk 2019, pp. 4, 5; Bagus 2024, p. 43). As rule of law and security of property supported both robust economic growth and political stability (Schnabl 2025), the country

became a quintessential symbol of modern prosperity, even entering contemporary European sayings such as “riche comme un Argentin” (“rich as an Argentine”) (Bagus 2024, p. 43). Bolt et al. (2018) recorded that in 1896 Argentina even ranked first globally in income per capita and that the country was consistently placed among the world’s wealthiest nations until the 1920s.

This high-income level was sustained by agricultural exports, foreign capital inflows, and an increasingly globalized trade system (Bagus 2024, p. 44). In the early twentieth century, Argentina was widely regarded as the “breadbasket of the world,” exporting beef, wheat, and maize, mainly to Great Britain as its largest trading partner and investor (Cortés Conde 2009, p. 15). At its peak, the combined value of exports and imports exceeded 100% of GDP (Bagus 2024, p. 44). Argentina’s early prosperity was therefore closely linked to relatively open markets, external capital, and an institutional environment in which private production and international exchange could expand.

From Prosperity to Interventionism

The “Golden Age” of relatively open markets and abundant external capital ended during the Great Depression and the increasingly unfavorable terms of trade of the 1930s. In 1930, a military coup initiated a political shift toward economic autarky as well as centrally planned and state-led economic development (Spruk 2019, p. 5). Import-substitution industrialization was promoted through subsidies to domestic industries at the expense of agriculture, accompanied by rising public spending and an increasingly interventionist state. In 1935, the Argentine Central Bank was established, modeled on the Bank of England, while the gold standard, which had been de facto abandoned in 1929, was not restored (Bagus 2024, p. 44). The new monetary framework was intended to counteract peso appreciation from capital inflows and artificially stimulate exports (Bagus 2024, p. 44). Another coup followed in 1943, during which Juan Domingo Perón emerged as Minister of Labor (Spruk 2019, p. 8). After World War II, growth slowed, economic volatility increased, and the fiscal role of the state expanded continuously.

Peronist Fiscal Expansion and Institutional Legacy

Perón's presidency, beginning in 1946, marked a decisive shift toward interventionism, widely regarded as pivotal in Argentina's long-term economic decline (Spruk 2019, p. 9). Peronism combined political nationalism, previous autarky aspirations, redistributionism, and corporatist bargaining (Ocampo 2020, p. 6; Bagus 2024, p. 45). Economic isolationism was reinforced through nationalization of companies, railways, and utilities; price and wage controls; close alignment with powerful unions; expanded welfare programs; and import substitution made possible by subsidies and tariffs (Gerchunoff and Díaz Alejandro 1989, pp. 59–60; Bagus 2024, p. 45; Kleinheyder and Schnabl 2025, p. 2). Perón increased the number of people entitled to pension payments from half a million to 10 million (Schnabl 2025).

State-owned or state-directed enterprises increasingly replaced private service provision, crowding out market-based suppliers (Schnabl 2025). This consolidation of economic control was supported by a corporatist alliance between government, unions, and media, concentrating political power and reducing private-sector dynamism. Over time, these policies diverted resources away from Argentina's areas of comparative advantage, reduced investment incentives, and weakened productivity growth. More importantly for the fiscal trajectory, they created durable spending commitments and politically protected constituencies that became difficult to reverse.

The Peronist mode of cronyist regulation, economic isolation and inflationary finance undermined Argentina's previous comparative world market advantage in agricultural and resource exports (Bermudez 2024). Protectionist measures shielded domestic industry and fostered dependency on subsidies. To finance expansive welfare programs and increasingly tight labor regulation, Perón relied on a state-controlled banking system that directed credit toward favored industries and state programs. Revenue shortfalls were met through monetary expansion, driving inflation. The resulting environment of persistent inflation eroded productivity and distorted resource allocation (Flossbach von

Storch Research Institute 2025, 6:09). Argentina's first episode of exceptionally high inflation occurred in the 1970s.

Perón remained politically influential for nearly three decades (Bagus 2024, p. 46). Ocampo (2020, p. 5) argues that Peronism continued to shape Argentine political, cultural, and economic life well into the Kirchner era. Perón's first presidency ended with a coup in 1955 and a ban on the Peronist party. Although some controls were later eased, the central fiscal pattern persisted: deficits financed by monetary expansion, import substitution, export taxes, subsidies, and state ownership remained recurrent tools of economic governance.

When democracy returned under President Raúl Alfonsín (1983–1989), whose policies closely mirrored European social democracy (Bagus 2024, p. 46), half of Argentina's productive assets were state-owned, leading to chronic inefficiencies, black-outs, and poor service provision (Bagus 2024, p. 46). His presidency ended amid hyperinflation exceeding 3,000%. Argentina's long-term decline has been linked to weak contract enforcement and insecure property rights, reflected in falling contract-intensive money (Prados de la Escosura and Sanz-Villarroya 2009). Dysfunctional political structures additionally amplified policy volatility and thus hampered entrepreneurial financial planning security (Spiller and Tommasi 2003), while low capital accumulation provided a weak basis for economic growth (Taylor 1992). Misallocation of labor and capital further depressed productivity (Kydland and Zarazaga 2002). These institutional weaknesses have at any time been directly relevant to fiscal stability because as they reduced growth, they also weakened the tax base, in turn increasing fiscal reliance on monetary softening and expansionism.

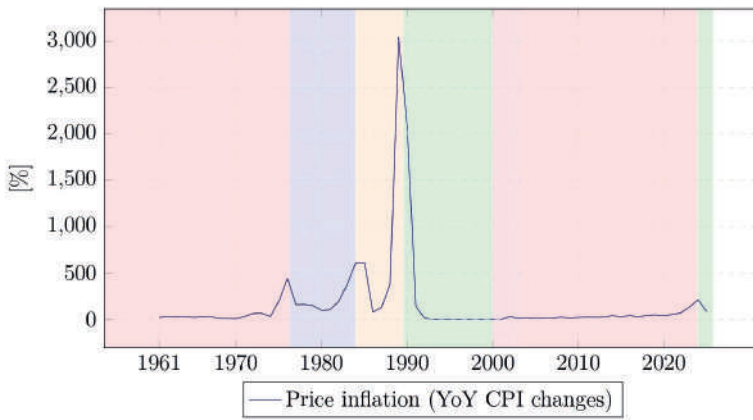


Figure 1: Argentina's price inflation from 1961 until 2025 including Perón Era (1946–1976), Military Regime (1976–1983), Alfonsín (1983–1989), Menem (1989–1999), Crisis & Transitional Presidencies (1999–2003), Kirchnerism (2003–2023), and Milei (2023–present)

(Source: World Bank Group (1961–2024), Reuters (2024–2025)).

Convertibility, Fiscal Rigidity, and the 2001 Crisis

President Carlos Menem (1989–1999), though a Peronist, implemented market-oriented reforms, including labor deregulation and privatization, often benefiting politically connected buyers. Inflation, averaging 254% annually from 1972 to 1991 (Ocampo 2021, pp. 13, 17), was halted by the Convertibility Plan of 1991, which pegged the peso to the dollar and limited money issuance to dollar reserves (International Monetary Fund 2004a, p. 3). Inflation fell from 27% monthly in early 1991 to low single digits by 1997, a transformation that later inspired debates on full dollarization and foreshadowed elements of Milei's agenda (Velde 2000, p. 3).

The 1990s brought growth averaging 7.5% and falling poverty, but fiscal discipline remained incomplete. According to the IMF's Independent Evaluation Office, Argentina's fiscal policy initially improved under convertibility, but these gains were not sustained;

the consolidated fiscal balance remained in deficit throughout most of the 1990s, and an election-driven increase in public spending in 1999 sharply weakened fiscal discipline (International Monetary Fund 2004b, pp. 14–15). Initial deficits were covered by privatization proceeds and tax increases; later, International Monetary Fund loans filled part of the financing gap (Bagus 2024a, p. 47). While the convertibility regime initially restored monetary stability, fiscal rigidities, inefficient tax federalism, common-pool and procyclical provincial spending patterns, dollar-denominated liabilities, and declining external competitiveness gradually weakened its credibility (Saiegh and Tommasi 1999; Dominguez and Tesar 2005). By 2001, the combination of recession, debt distress, deposit freezes, and social unrest culminated in sovereign default and a rapid succession of presidents (Jonas 2002).

McKinnon's "order of economic liberalization" theory elucidates why the Menem reform plan went awry: To prove both long term-stable and efficacious, an economic liberalization program not only hinges on the consequent implementation of the three classical pillars of market order restoration – fiscal stabilization, monetary hardening and deregulation/privatization –, but on the specific sequence in which they are implemented. Fiscal stabilization must come first, for a government that still depends on deficits, monetary accommodation, or unstable borrowing cannot credibly sustain monetary hardening. If disinflation is attempted before the budget is stabilized, higher real interest rates and tighter credit conditions can raise the state's debt-service burden and thereby produce renewed fiscal stress as in the case of the Menem administration. Only after budgetary consolidation, a credible tax system, and banking-sector stabilization can disinflation and monetary restraint become durable; broader market and external liberalization should follow once the monetary regime is no longer undermined by fiscal imbalance (McKinnon 1982, pp. 159–186; McKinnon 1993, pp. 1–10, 55–83). Argentina's convertibility regime therefore stabilized money more quickly than it stabilized the fiscal foundations on which monetary credibility contingently depended.

The ensuing crisis damaged confidence in monetary institutions and representative politics, reinforcing the long-run pattern

of unstable rules, weak property-rights credibility, and recurrent emergency governance that persisted well into the Kirchner era (Barlow and Peña 2022). Thus, the Menem reform episode became central to Argentina's later political economy. In the eyes of the political establishment it discredited partial liberalization and left subsequent governments with a strong political incentive to yet again return to inflationary finance, controls, subsidies, and discretionary redistribution.

From Kirchnerism to Milei

Kirchnerism (2003–2015) sustained high public spending during a commodity boom, masking structural weaknesses. The public workforce expanded by 1.4 million (Urien 2016), and corruption became emblematic of governance under Kirchnerism (Bagus 2024, p. 49). A short phase of gradual and partial liberalization occurred under Mauricio Macri (2015–2019), but it did not fundamentally resolve Argentina's fiscal and institutional fragility (Kleinheyer and Schnabl 2025, p. 3). Under Alberto Fernández (2019–2023), inflation reached 50% by 2019. Pandemic policies included the world's longest lockdown, lasting 234 days in Buenos Aires, contributing to economic contraction and rising poverty (Bagus 2024, pp. 48–49).

By 2023, poverty affected roughly half the population and annual inflation reached 211% (see Figure 1). The central bank's issuance of high-interest liabilities, financed by money creation, expanded the monetary base by approximately 30% per month (Bagus 2024, p. 51). Milei later claimed that the inherited inflationary dynamic had been equivalent to an annualized rate of approximately 17,000%, referring specifically to wholesale-price inflation: Argentina's wholesale price index had increased by 54.0% month-on-month in December 2023, which Milei described as moving from "17,000 to 50" when comparing the annualized wholesale inflation rate with later monthly figures (INDEC 2024; Casa Rosada 2024). This should be understood as a political-economic extrapolation rather than observed annual CPI inflation. Nevertheless, it captured the perceived urgency of the situation: Argentina entered

the Milei presidency with a fiscal state that had lost credibility, a currency under severe pressure, and a public sector whose commitments could no longer be financed without inflationary or debt-based mechanisms.

3. Milei's Government and Fiscal Reform Strategy

3.1. Fiscal Crisis as Electoral Opportunity

Argentina's prolonged economic deterioration was central to Milei's electoral success. Decades of high inflation, declining real wages, stagnant productivity, high tax burdens, price controls, and regulatory rigidity created a perception of structural exhaustion. Between the early 2010s and 2023, Argentina experienced a lost decade of income stagnation. GDP per capita in 2023 was approximately at its 2006 level, while average real per-capita household income was 40% lower than in 2016 (World Bank 2024). Fundar's Argendata series shows a similar deterioration in labor income: real wages expanded until 2013, stagnated until 2017, and then entered a contractionary phase; by 2023, real wages were 8% below their 1970 level and 30% below their 1974 historical peak (Fundar 2025). Cumulative inflation during the Fernández administration alone exceeded 1,100% (Buenos Aires Times 2024). By the end of 2023, annual inflation reached 211%, poverty affected roughly half the population, and the central bank's issuance of high-interest liabilities had intensified the link between fiscal imbalance and monetary expansion (Bagus 2024, p. 51).

Inflation was experienced as a hidden tax on workers and savers, disproportionately affecting lower-income groups and those unable to protect themselves through dollarized assets or foreign holdings (Falcone 2024). The loss of confidence in the peso had already led many Argentines to dollarize their savings informally. Milei's campaign proposals to eliminate the fiscal deficit, cut public spending, dollarize the economy, and close the Banco Central de la República Argentina resonated with a discontent populace as they promised a radical break with the vicious cycle of deficit spending, inflationary finance, and emergency controls.

Additionally, years of economic mismanagement and perceived political privilege had weakened *general* trust in democratic institutions and established parties. Support for democracy fell from 90% in 2008 to 68% in 2023, a decline of 22 percentage points (LAPOP 2023, p. 14). Bagus (2024a, p. 51) describes a “perfect storm” of strategic errors among traditional parties that opened Milei a path to power as neither of his opponents could credibly embody a full break with Argentina’s fiscal and institutional status quo.

3.2. *Political Constraints and the Limits of Executive Reform*

The Milei administration’s reform strategy was shaped by severe political constraints. La Libertad Avanza entered government without a stable congressional majority, which limited the scope of immediate legislative reform. This mattered especially for taxation, labor regulation, privatization, and durable institutional changes. Emergency decrees and executive action could initiate reform, but they could not substitute permanently for congressional approval.

The Ley de Bases y Puntos de Partida para la Libertad de los Argentinos — the “Law of Bases and Starting Points for the Freedom of Argentines,” commonly referred to as the Ley Bases — therefore became central to the government’s strategy. It gave the executive greater room to reorganize the state and pursue deregulation, while also revealing the limits of reform under fragmented legislative conditions. Several initial proposals had to be reduced, delayed, or negotiated before they could pass. The fiscal consolidation process was not only an economic adjustment but also a test of Argentina’s institutional capacity to transform emergency stabilization into durable rules.

This distinction is important for evaluating the Milei presidency. A government can produce fiscal correction quickly through cuts, freezes, and emergency measures. Fiscal credibility, however, requires that markets, households, firms, provinces, and political actors believe that the new constraints will persist. Fiscal consolidation, in the stronger sense, requires that the adjustment become embedded in institutions rather than remaining

dependent on presidential discretion. The following sections therefore assess Milei's fiscal reforms not only by their immediate budgetary effects, but also by their mechanisms, institutional constraints, and durability.

3.3. Supporting Structural Conditions for Fiscal Consolidation

3.3.1. Public Employment Retrenchment and Labor-Market Adjustment

A central component of Milei's fiscal consolidation strategy was the reduction of public-sector employment and the attempt to loosen labor-market constraints that had long limited formal hiring. Argentina's labor framework reflected a longstanding legacy of Peronism: rigid employment rules, strong union structures, high separation costs, widespread informality, and a dense regulatory environment. Before Milei, Argentina reportedly had around 300,000 laws, decrees, and regulations across multiple areas (Schnabl 2025). For the new administration, labor reform was therefore not merely a supply-side objective. It was also fiscally relevant because an oversized public payroll, rigid labor institutions, and weak private-sector absorption capacity limited the sustainability of expenditure cuts.

Public employment became one of the earliest targets of the austerity program. Since the detailed public-payroll reductions are analyzed in Section 4.1, this subsection focuses on the complementary labor-market question: whether private employment could absorb workers and resources released from state-dependent sectors. The payroll cuts contributed directly to the fiscal turnaround, but they also raised the central adjustment problem of the reform program: whether labor and capital released from the state sector could be absorbed by a private economy still constrained by recession, uncertainty, and inherited regulation.

The private sector initially did not compensate for the contraction. It experienced larger employment losses, with 119,700 jobs reportedly eliminated. Although a modest recovery began in July 2024, it remained insufficient to offset earlier declines (El Cronista

2025). The contraction reflected public-sector downsizing, the suspension of public works, falling demand, and a freeze on new hiring. These developments reversed the post-pandemic unemployment recovery and showed the social costs of an austerity-centered stabilization strategy. For this reason, the labor-market dimension of Milei's program cannot be separated from fiscal consolidation: public employment cuts improve the budgetary position in the short run, but their long-term success depends on whether private-sector job creation can eventually replace state-dependent employment.

From an Austrian perspective, the reduction of public payrolls can be interpreted as an attempt to reallocate labor away from the distorted state of politically financed employment toward stable market-based activity. Mueller (2024) argues that reducing public payrolls is necessary to enable private-sector expansion through the release of unproductive labor and market reallocation. López (2024) observes that within Milei's first quarter, 93,000 public jobs had been eliminated, with further reductions planned, alongside the elimination of 200,000 social programs and public works. Yet state functions continued and even generated three consecutive fiscal surpluses, which he interprets as evidence of prior over-bureaucratization. Cachanosky (2024) similarly argues that multigenerational unemployment, fostered by an expansive welfare state and institutional decay since the 2001 crisis, entrenched dependence on state provision and weakened incentives to work.

Labor-market reform was intended to complement this fiscal retrenchment by lowering barriers to formal hiring. One of Milei's first reform instruments was the omnibus Decreto de Necesidad y Urgencia (DNU) 70/2023, which declared a broad economic emergency and introduced labor-regulation reforms (Urieta 2024). However, the labor provisions of the decree were suspended and later struck down by the national labor court in January 2024 on constitutional grounds (Urieta 2024). The administration then reintroduced a narrower version through the omnibus reform law *Ley de Bases y Puntos de Partida para la Libertad de los Argentinos*.

After congressional negotiations, the labor chapter was reduced from 60 to 14 articles. The final version retained provisions aimed at easing formal hiring while dropping several union and benefit reforms (Urieta 2024). Enacted in July 2024, as Law 27.742, the

reform included several measures relevant to employment costs and formalization (Funes de Rioja and Barbieri 2024; Urieta 2024). Probationary periods were extended from three to six months for large firms and to eight or twelve months for smaller firms. Employers were allowed, subject to collective bargaining, to replace traditional severance obligations with fixed payments, savings funds, or insurance-based systems. A regularization program forgave up to 90% of social security debts to incentivize formalization. Registration procedures were simplified, and a new “independent collaborator” category allowed freelancers to hire up to three assistants without creating a standard employment relationship. Additional provisions clarified contractor status, enabled severance insurance, increased compensation for discriminatory dismissals, and removed some punitive damages in order to reduce litigation risks.

These reforms were fiscally relevant in three ways: first, by encouraging formalization, they had the potential to broaden the contribution and tax base. Second, by lowering expected dismissal and litigation costs, they could improve the capacity of firms to absorb labor after public-sector retrenchment. Third, by weakening the structural dependence of employment on state payrolls and public works, they supported the broader shift from deficit-financed employment toward market-based job creation. The fiscal effect was therefore indirect, but important: austerity could become more durable if private employment expanded under less rigid labor conditions.

The evidence remained mixed. The government cited a 19.2% real wage increase for registered private-sector workers since December 2023 until August 2025, while independent estimates placed the increase closer to 3% (Chequeado 2024). Net job creation remained limited, as the economy contracted through 2024 and unemployment data showed only modest improvements. Bagus (2024b) supports the reforms, citing inherited conditions of high poverty, an oversized public sector, and rapid inflation, and views labor liberalization as a necessary complement to monetary and fiscal stabilization. Yet the short-term data suggest that labor reform could not immediately offset the employment losses caused by recession, public works suspension, and public-sector downsizing.

Union power remained a further institutional constraint. For more than seventy years, Argentina had maintained a corporatist labor system in which powerful unions controlled important parts of labor supply and policymaking (Vásquez 2025). Law 27.742 allowed employers and unions to opt into a funded severance indemnity system through collective bargaining, replacing statutory severance pay with employer-funded insurance or separation funds (Funes de Rioja and Barbieri 2024). The stated aim was to reduce labor disputes and integrate informal workers into the formal sector. Major unions responded with a nationwide strike on May 9, 2024, and mass protests during the Senate debate in June, some of which turned violent (Reuters 2024b). The International Monetary Fund welcomed the approved labor reform, noting that lower dismissal costs, easier probationary contracts, and formalization incentives should support job creation and productivity over time (International Monetary Fund 2024, p. 20).

Overall, labor-market reform and public employment retrenchment formed an essential bridge between fiscal austerity and structural adjustment. Public payroll cuts contributed directly to expenditure reduction, while labor liberalization sought to make the private sector more capable of absorbing workers and sustaining a lower-spending fiscal regime. However, this bridge remained fragile. In the short term, the adjustment increased social pressure and did not immediately generate strong net employment gains. The success of this ongoing reform area therefore depends on whether fiscal consolidation can be accompanied by sufficient private-sector recovery, formalization, and institutional durability.

3.3.2. Real-Asset and Resource-Market Deregulation as Supporting Conditions of Fiscal Consolidation

In parallel with labor-market reform and public-sector retrenchment, the Milei administration pursued deregulation in real estate, rental, land, resource, and investment-related markets. These reforms were not fiscal measures in the narrow budgetary sense. However, they were relevant to fiscal consolidation because they aimed to restore property rights, remove price distortions, attract

private capital, reduce administrative burdens, and expand the productive base from which future fiscal stability would have to arise. In a country where recurrent deficits had often been managed through controls, subsidies, and discretionary intervention, deregulation was presented as a necessary institutional complement to expenditure restraint.

Housing and Rent Deregulation

One of the earliest reforms under DNU 70/2023 was the repeal of the 2020 Rental Law, which had mandated three-year leases and capped annual rent adjustments. The repeal returned the sector to freer contracting, allowing leases of varying duration, flexible rent adjustments, and foreign-currency denomination. Within one month, rental listings in Greater Buenos Aires rose by 90.3%, and by June 2024 they were up 211.9% from pre-reform levels. Inflation-adjusted rents fell by 6.7% in January 2024 and by 26.6% by June 2024 (República Argentina, Ministerio de Desregulación y Transformación del Estado 2024, p. 2). As of mid-2025, no major political party had moved to reinstate the previous controls.

Although rental deregulation did not directly reduce the central-government deficit, it mattered for the broader fiscal adjustment process. Rent controls had distorted housing supply, weakened contractual certainty, and shifted adjustment pressures into informal or politically mediated channels. By restoring greater contractual freedom, the reform reduced the need for future intervention, lowered relative-price distortions, and created an early example of how deregulation could generate visible supply responses without direct public spending. In that sense, the housing reform supported the fiscal strategy indirectly: it demonstrated that some social and economic bottlenecks could be addressed through institutional liberalization rather than through subsidies or expanded public expenditure.

Property and Land Market Reforms

DNU 70/2023 also repealed the Ley de Tierras Rurales, Law 26.737 of 2011, which had limited the amount of farmland that foreign individuals or companies could own (MDZ Online 2024). The government argued that removing these restrictions would “liberate” economic activity and attract capital, particularly to underutilized land (Agenda Malvinas 2024). The measure generated backlash from nationalist and rural groups. FIPCA filed a lawsuit in 2024 claiming that unrestricted foreign land ownership endangered national sovereignty (MDZ Online 2024). Critics argued that the original law had protected strategic resources (Agenda Malvinas 2024). By mid-2025, however, Argentina’s land market was open to foreign buyers.

For the purposes of fiscal consolidation, the relevance of land-market reform lies in its investment and credibility effects. Restrictions on land ownership had limited the mobilization of agricultural and resource assets, thereby constraining investment, productivity, and future taxable activity. Chafuen (2024) links the repeal of rural-land ownership restrictions, the restoration of freer contracting in rental markets, and the broader opening of resource and investment markets to Hayekian principles of private property and limited government, framing decades of prior controls as consistent with the interventionist trajectory criticized in Hayek’s *The Road to Serfdom*. The measure therefore formed part of a broader attempt to replace discretionary control with clearer property-rights rules.

Resource Sector and RIGI Program

The 2024 Ley Bases authorized privatizations and established the Régimen de Incentivos a las Grandes Inversiones (RIGI) for projects exceeding US\$200 million in sectors such as energy, mining, and infrastructure. RIGI grants tax incentives, exemptions from certain currency controls, and 30-year legal stability. By mid-2025, four projects worth approximately US\$14 billion had been approved, with additional projects pending, many of them in

lithium mining (Maza 2025). IndustriALL Global Union (2024) noted environmental risks and warned that the regime might generate limited domestic value added.

RIGI illustrates a central tension in Milei's fiscal strategy. On the one hand, investment incentives may reduce immediate revenue or create preferential treatment for selected large projects. On the other hand, they may strengthen fiscal sustainability if they attract capital, expand production, raise exports, and broaden the future tax base. The fiscal case for RIGI therefore depends not only on the nominal value of approved investments, but on whether these projects generate durable productive capacity, foreign-exchange earnings, employment, and taxable activity without creating new forms of privilege or fiscal dependency.

Deregulation and Bureaucratic Cuts

The newly created Ministry of Deregulation and State Transformation, led by Federico Sturzenegger, became central to the government's attempt to reduce administrative barriers and state operating costs. Reuters describes the ministry as the "nerve center" of Argentina's effort to cut regulation and shrink government; under Milei, the number of ministries was halved to eight, several ministries were downgraded, and the number of public-sector workers fell by around 10% in 2024, equivalent to nearly 40,000 jobs (Elliott 2025). Price distortions in sectors such as imports, aviation, and telecommunications were reduced, contributing to lower consumer prices and improved services in selected areas (Vásquez 2025). Privatization plans, however, met resistance in certain provinces, particularly over dams and energy infrastructure (Ámbito 2024).

These measures had both direct and indirect fiscal relevance. Directly, bureaucratic cuts reduced administrative costs, public employment, and institutional duplication. Indirectly, deregulation sought to lower compliance costs for firms and weaken the channels through which politically connected groups could obtain privileges, subsidies, or regulatory protection. In this respect, deregulation supported fiscal consolidation by limiting the state's

operational scope and reducing the number of policy instruments through which future spending pressures could re-emerge.

Real-asset, resource-market, and bureaucratic deregulation should be understood as supporting conditions of fiscal consolidation rather than as separate reform fields. Their purpose was to make expenditure restraint more sustainable by restoring price signals, property rights, investment incentives, and private-sector adjustment capacity. At the same time, these reforms remained politically and institutionally fragile. Resistance from unions, provinces, nationalist groups, and sectoral interests showed that fiscal consolidation cannot rely on budget cuts alone. It requires a broader institutional environment in which private investment, contractual freedom, and hard budget constraints can replace the previous model of controls, subsidies, and discretionary state allocation.

4. Fiscal Consolidation

Ronald McKinnon's theory of financial repression holds that administratively controlled interest rates, directed credit, and inflationary monetary conditions impair financial development by weakening saving incentives and disconnecting capital allocation from market signals, thereby reducing the efficiency of investment (McKinnon 1973). Inequality rises as the state channels scarce resources to favored groups such as unions and pensioners. Everyone pays through higher prices and eroded savings (Schnabl 2025).

This was the condition of Argentine fiscal policy when Milei entered the presidential office, where excessive government credit-financed spending drove money creation and inflation. The close link between public-sector credit, monetary expansion, and inflation suggests that cutting fiscal deficits was essential to stabilize prices (Kleinheyer and Schnabl 2025, pp. 10–11).

Public deficit spending imposes inflationary costs on the populace through two main channels: (a) a government-induced increase in aggregate demand and (b) expansions in the money supply used to refinance bond purchases that enable (a).

The mechanism of (a) arises because the aggregate supply of goods and services is not perfectly elastic. As a result,

government-driven demand shocks tend to raise overall price levels in the short term. To finance such spending, the government issues bonds. In fractional-reserve fiat systems, these bonds may be purchased with newly created central bank money rather than genuine savings—especially when monetary authorities accommodate fiscal deficits.

Under financial repression, this possibility can become a necessity: monetary institutions are pressured or compelled to monetize debt. As a result, increases in public debt directly fuel monetary expansion.

Beyond inflation, deficit-financed public spending can also crowd out private investment. When governments absorb a large share of domestic credit, interest rates may rise or lending to the private sector may shrink, especially in underdeveloped financial markets. In financially repressed environments, which are marked by mandated holdings of public debt and directed credit, the distortion is further amplified, reducing capital allocation efficiency and private sector growth.

As described by McKinnon (1973) and Shaw (1973), financially repressed regimes artificially depress real interest rates and constrain financial freedom. Reinhart and Sbrancia (2015) provide a detailed overview of mechanisms typical of financially repressive regimes, including:

1. interest-rate caps and ceilings,
2. mandatory domestic bond holdings by captive audiences,
3. credit allocation via state-owned or state-influenced financial institutions,
4. regulatory pressure to favor government securities through prudential or liquidity rules.

As will be shown over the course of this paper, all of these features characterized pre-Milei Argentina, rendering the Kirchnerist regime a textbook case of financial repression.

Given these structural distortions, the Milei administration inherited a country plagued by chronic fiscal deficits, soaring inflation, and a heavy debt burden. In response, it launched a sweeping fiscal consolidation program aimed at reducing government activity and breaking the inflationary spiral driven by deficit

spending (Kleinheyer and Schnabl 2025, pp. 8–9). This section analyzes the three main pillars of Milei’s fiscal reform strategy: (1) expenditure cuts, (2) tax simplification and rate reductions, and (3) the privatization of state-owned enterprises.

4.1. *Implementation of Austerity Measures: Reduction in Public Expenditure*

4.1.1. Budgetary Reforms and Federal–Provincial Realignment

Decentralization through Fiscal Federalism

In line with direct central spending cuts detailed in following sections, Milei also tackled Argentina’s traditional federal model, in which provinces depended on shared revenue and discretionary funds from the center (known as *coparticipación*), by sharply reducing discretionary transfers to provinces (Kleinheyer and Schnabl 2025, p. 9). This radical federalist shift was embedded in the *Ley Bases*, passed mid-2024, which granted Milei’s executive broad powers to reorganize the state, enforce fiscal restraint, and institutionalize the ongoing decentralization agenda in a powerful Ministry of Deregulation and State Transformation (Kleinheyer and Schnabl 2025, p. 15). Later in December 2024, the government proposed eliminating 90% of federal taxes, shifting most of Argentina’s tax authority to its provinces whilst promoting interprovincial tax competition. The government initially increased the country tax on foreign currency purchases for imports, but later reduced and ultimately abolished it by the end of 2024 (Kleinheyer and Schnabl 2025, p. 9).

As the central government stopped compensating low tariffs (Associated Press 2024a), governance capacity in several provinces weakened sharply, with delays in provincial infrastructure projects and rising utility rates as immediate fiscal consequences. While some Peronist governors—like La Rioja’s Ricardo Quintela—resisted, with his province even issuing its own scrip currency (“chachos”) to cope with the funding loss (Associated Press 2024a), others signed the “Pacto de Mayo” (May Pact) with Milei.

This agreement endorsed fiscal and economic principles such as the inviolability of private property, a reduction of overall public spending to 25% of GDP, and reforms to simplify the tax system and promote free trade (Bagus & Ferrero 2024). By 2025, most provinces had adopted leaner budgets, with the initial freeze on transfers being attributed as a major driver of Milei's early fiscal consolidation (Associated Press 2024a).

Cuts to Subsidies and Public Services

Inheriting the fiscal deficits from his predecessor, Milei and his finance minister declared that fiscal deficit elimination was "non-negotiable" in being the foundation of Argentina's economic stabilization (Bagus & Ferrero 2024).

On the central level, one of Milei's first actions was slashing state subsidies for electricity, gas, and public transport, which had kept prices artificially low (Kleinheyer and Schnabl 2025, p. 9). As subsidies were withdrawn, energy prices have continued to rise at an above-average rate and bus tickets in Buenos Aires rose tenfold (Paqué and Holtzmann 2024).

Budget reductions in public services affected also education, science, and healthcare. Milei vetoed university budget increases (Associated Press 2024b), forcing universities also to scale back on centrally financed operations, potentially reviving previously crowded-out competition in the field of research outside of the state sector.

Entire government departments deemed non-essential were downsized or eliminated: Milei downgraded the culture ministry, closed the national theater institute, shuttered a state-funded news agency and defunded scientific research (Associated Press 2024b). With that the number of ministries halved (Kleinheyer and Schnabl 2025, p. 9).

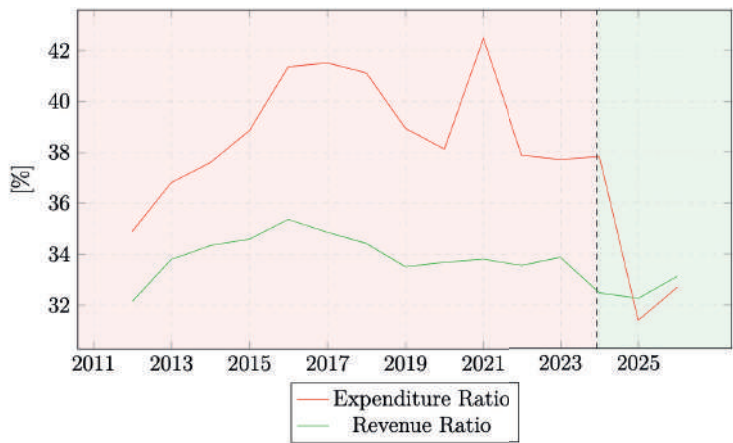


Figure 2: Central government expenditure and revenue as a fraction of GDP under the pre-Milei administrations and the Milei presidency (Source: Ministry of Economy; IMF (World Economic Outlook)).

Downsizing the Public Sector Workforce and Wage Bill

Accompanying the elimination and downsizing of government agencies, the Milei government enacted mass layoffs of public employees: over 52,309 government workers were dismissed by June 2025, including 26,991 in the first six months alone (Infobae 2024a).

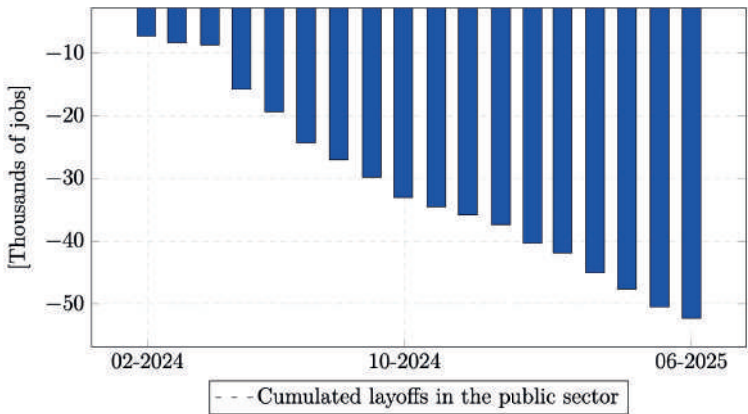


Figure 3: Cumulated reduction in public employment by month since the Milei presidency (Source: *Ministerio de Desregulación y Transformación del Estado*).

Employees who remained in public service saw their wages, pensions, and social benefits frozen or only slightly adjusted but still below the rate of inflation (Associated Press 2024b). This significantly reduced the real wage bill and generated fiscal savings (Debre 2024).

Interestingly, in a country with a long history of raucous street protests, the mass unrest many pundits predicted did not materialize (Associated Press 2024b).

Milei’s policy course of devolving central government powers to the local area and drastically cutting the number and wages of government agents aligns with classical Austrian prescriptions for shrinking bloated bureaucracies and ending unsustainable entitlements (Bagus & Ferrero 2024).

4.1.2. Economic Outcomes of Fiscal Austerity

Fiscal Surplus and Macroeconomic Turnaround

Milei’s austerity measures produced a swift and historic shift in Argentina’s fiscal balance. After running deficits every year since

2009 (peaking at 9% of GDP in 2020) the government posted a budget surplus in 2024, Milei's first year in office.

Though modest (0.3% of GDP, or 1.76 trillion pesos) (Reuters 2025a), it marked the first surplus in 14 years and symbolized the success of Milei's "zero deficit" pledge (Kleinheyer and Schnabl 2025, p. 11). For eleven months in 2024, Argentina ran consistent primary surpluses, driven by aggressive spending cuts outpacing declining revenues. A small December deficit (attributed to seasonal spending) did not offset the full-year result (Reuters 2025a). The primary surplus reached 1.8% of GDP (Reuters 2025a).

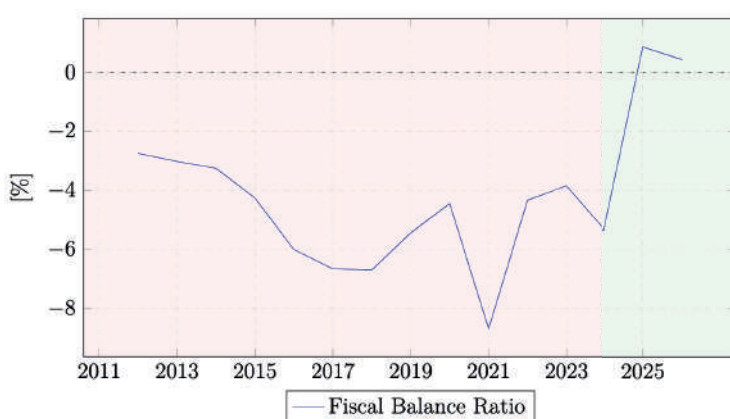


Figure 4: Central government fiscal balance as a fraction of GDP under the **pre-Milei administrations** and the **Milei presidency** (Source: Ministry of Economy; IMF (World Economic Outlook)).

Effects on Central Government Debt

Hoppe (2025, 36:00-39:30) criticizes that central government debt increased in absolute terms under the Milei presidency, taking on more debt than any of his predecessors, with future taxpayers having to carry the burden fiscally.

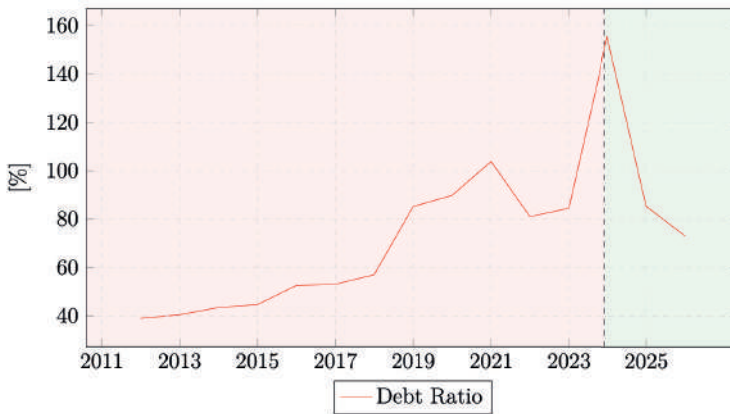


Figure 5: Central government debt as a fraction of GDP under the **pre-Milei administrations** and the **Milei presidency** (Source: Ministry of Economy; IMF (World Economic Outlook)).

The sharp increase in the central-government debt ratio, followed by an observable decline in recent months as shown in Figure 5, coincided with a major liability-restructuring process. The government converted inherited high-yield central-bank liabilities, including LELIQs, *pases*, and puts, into short-term Treasury instruments such as LEFIs and LECAPs. This shifted part of the quasi-fiscal burden from the central bank to the Treasury, making fiscal discipline more transparent but also placing greater pressure on the government's explicit fiscal accounts. Because this restructuring strained fiscal capacity and reserve management, the Milei government concluded an IMF agreement to support the debt-restructuring process, rebuild the Central Bank's dollar reserves, and stabilize the new foreign-exchange band system. Although the repayment prospects and scale of the agreement remain contested (La Política Online 2025), the agreement helped reverse the decline in reserves and supported a subsequent reduction in the central-government debt ratio.

It has, however, been questioned whether the IMF agreement and debt restructuring were necessary in the first place. From a deontological Austrian perspective, Hansen (2021a) and Hoppe

(2025, 36:00–39:30) argue that repudiating inherited public debt may be ethically defensible where repayment burdens taxpayers who did not voluntarily assume the obligation. Hansen (2021b) further argues that government debt finances consumption rather than productive investment and may therefore be understood as “fictitious capital,” so that default could redirect resources from taxation toward private saving and investment.

This argument is theoretically relevant, but it is less persuasive as a practical fiscal strategy for Argentina in 2024–2026. A unilateral repudiation of debt could have reduced the burden on taxpayers in the narrow sense, but it would likely have imposed severe reputational costs, weakened access to international capital markets, and increased uncertainty for future private investment. For a government attempting to restore fiscal credibility, contractual reliability was itself part of the consolidation strategy. Milei’s decision to restructure and refinance inherited liabilities rather than repudiate them can therefore be interpreted as an attempt to preserve the legal and reputational foundations of future market access.

Consistent with this credibility-oriented approach, Argentina’s sovereign risk spread fell to a five-year low by late 2024 (Associated Press 2024b). Milei’s fiscal consolidation also reduced the need for central-bank financing, ending years of monetized deficits (Associated Press 2024b).

Recessionary Effects of Austerity

Milei’s austerity measures, while effective in curbing inflation, triggered a sharp short-term economic contraction. In early 2024, public spending cuts led to a steep decline in aggregate demand. Consumer spending dropped by an estimated 20% year-on-year, while rising costs and falling sales forced businesses to scale back (Associated Press 2024b). The construction sector was especially impacted: public works were frozen, and around 200,000 construction jobs were lost due to the freeze in infrastructure projects (Associated Press 2024b). Industrial output and retail activity also declined.

GDP contracted significantly in the first half of 2024, falling approximately 5.1% in Q1 year-on-year (Tobias 2024), followed by a 1.7% decline in Q2 (Reuters 2024a), as fiscal tightening and elevated interest rates weighed heavily on growth. Unemployment rose sharply—from 5.7% in late 2023 to 7.7% by Q1 2024 (Nessi and Pelaez-Fernandez 2024)—while many Argentines turned to informal or precarious subsistence work in the wake of mass layoffs and economic hardship, with informal employment reaching 42% by year-end (OECD 2025).

Poverty and Recovery

Following cuts in social spending and public employment, the poverty rate rose to 52.9%. This pushed over half the population below the official poverty line, the highest level in two decades (Associated Press 2024b).

As inflation slowed and wages began stabilizing, however, poverty declined sharply. By late 2024, the rate dropped to 38%. By mid-2025, poverty remained high (~36–38%), but the peak had passed. Observers noted that the poverty spike was severe but short-lived (Lo Bianco and Bustamante 2025).

Milei's administration preserved core anti-poverty programs but removed intermediaries in aid distribution by shifting delivery from social organizations to direct support to soup kitchens to curb corruption and reduce administrative costs (Dubois 2024).

4.2. *Tax Reforms: Simplification and Reduction of Tax Burdens*

4.2.1. Implemented Tax Changes in 2023–2025

President Javier Milei undertook a sweeping tax overhaul between December 2023 and June 2025, aiming to radically simplify Argentina's tax system and lower the burden on the private sector. He inherited one of the world's most complex regimes—around 155 federal, provincial, and municipal levies in 2024 (Consejo Profesional de Ciencias Económicas de Santa Fe (CPCE) 2024)—with

effective tax rates sometimes exceeding 106% of business profits (Brattström 2024).

Export Duties and Trade Taxes

One of Milei's first reforms targeted Argentina's export taxes (*retenciones*), long seen as distortive. In December 2023, a decree eliminated the 3–4.5% duty on over 4,400 industrial and value-added products, benefiting nearly 40% of exporters (Martinez 2025). Temporary cuts were also applied on major agricultural commodities exports (soybean, corn, sorghum, sunflower, wheat, and barley) through June 2025 (later extended to March 2026 for wheat and barley) (Giménez 2025). Smaller regional exports (cotton, paper, food, and beverages) received in January 2025 permanent tax exemptions (Martinez 2025). While regional relief had limited fiscal impact, cuts on soy and corn (previously taxed at 33% and 12%) were estimated to cost 0.13% of GDP in lost revenue (Tendata 2024; Escobar 2025). Economy Minister Luis Caputo tied these cuts to fiscal balance and confirmed reinstatement for major grain duties after June 2025 without broader reform (Escobar 2025; Blue Dollar 2025).

Hoppe (2025, 41:50), however, raised concern over Milei's tax policies, noting that contrary to his promises on the campaign trail, "he raised taxes".

This criticism, however, should be fairly assessed under the scope of institutional realities: Politically, a comprehensive tax reform could not be implemented by executive will alone but required congressional negotiation, particularly through the Chamber of Deputies. Before the new Congress took office in December 2025, Milei governed with just a fragile legislative base, making a deep tax overhaul both politically costly and procedurally difficult. After the 2025 midterm elections, *La Libertad Avanza* became the largest minority in the Chamber of Deputies with 95 of 257 seats, but still required allied votes to reach the absolute or qualified majorities necessary to pass major reforms (Honorable Cámara de Diputados, 2026).

The Milei government has maintained that several tax increases were temporary and must be understood alongside simultaneous

tax reductions. Its longer-term objective remained a broader simplification of the tax system, including the announced plan to reduce the number of taxes substantially (Infobae 2024b; International Monetary Fund 2025). In the short term, however, tax reduction was constrained by the priority of maintaining the fiscal balance.

On the import side, the 2024 “Fiscal Package” eliminated duties on capital goods and reduced tariffs on inputs like textiles, footwear, and machinery (Giménez 2025). The government also abolished the flat 7.5% blanket tax on all imported goods (Kleinheyer and Schnabl 2025, p. 19). Cell phone tariffs dropped from 16% to 8% (set to reach 0% by 2026), and video game console duties fell from 35% to 20% (Giménez 2025). These cuts, alongside the removal or reduction of numerous minor excise taxes on goods, were intended to boost investment and productivity by cheapening equipment and encouraging trade. The 20% luxury tax on mid-priced cars was removed, and the top rate on high-end vehicles was cut to 18% from previously 35%, a move expected to lower vehicle prices broadly. Electronics taxes were halved for imports (19% to 9.5%) and abolished for locally produced goods (Giménez 2025). The government is reducing bureaucracy at the customs authority. Requirements for domestic industries to approve certain imports were abolished (Schnabl 2025). These changes marked a pivot toward open markets. The removal of trade restrictions was accompanied by rising exports, which helped improve the trade balance.

Foreign-exchange and Financial Taxes

Milei’s government eliminated key taxes on foreign-exchange to strengthen the peso and encourage dollar repatriation. The 30% *Impuesto Para una Argentina Inclusiva y Solidaria* (PAIS) surcharge on foreign currency purchases and foreign transactions expired on December 23, 2024, and was not renewed. This tax had accounted for around 5% of total revenue in 2024, so its removal helped reduce barriers to holding dollars and boosted confidence in the peso (Giménez 2025). A 30% prepayment on “savings dollar” purchases

(creditable against the assets tax) was also scrapped. These changes, alongside looser capital controls, contributed to the peso's appreciation in late 2024 (Associated Press 2024b).

The longstanding cheque tax on bank transactions remained in place (scheduled for elimination by 2027), as Milei balanced reform goals with IMF commitments (Tristán & Asociados 2024). The overall strategy was tax simplification without immediate revenue loss.

Income, Wealth, and Payroll Taxes

Law 27.743 modified the existing Impuesto a las Ganancias framework for labor and pension income by repealing the separate cedular regime for higher income from dependent employment, pensions, and related categories, adjusting deductions and rate schedules, and removing or limiting several exemptions with effect for fiscal year 2024. The reform therefore broadened the taxable base by subjecting previously exempt forms of compensation to taxation and changed the structure of labor-income taxation without constituting a wholly new tax. The law was formally regulated through Decreto 652/2024 and RG (AFIP) 5531/2024, which operationalized the updated withholding mechanisms for employees and pensioners (Heller et al. 2024). Though politically difficult, this reversal aimed to restore fiscal discipline.

The same law also reformed the Bienes Personales (assets tax): the non-taxable threshold was raised to AR\$100 million, the primary residence exemption increased to AR\$350 million, and top marginal rates were reduced from 1.75% to 1.5% for 2023, with a planned gradual decrease to 0.25% by 2027. Taxpayers who prepay the tax receive fiscal stability guarantees through 2038 (WSC Legal (Wiener Soto Caparrós) 2025). A 2024 tax amnesty program brought an estimated US\$18 billion of previously undeclared savings back into the banking system by October 2024, further strengthening foreign reserves (Otaola and Elliott 2024).

The payroll reform raised the annual cap for employee social security contributions to approximately AR\$5.24 million in 2024 and reaffirmed that these contributions remain deductible for income tax purposes (Jurgens and Ashmore 2024).

Incentive Regime for Large Investments

Law 27,742, enacted in July 2024, established the RIGI, a flagship program providing preferential tax, customs, and foreign-exchange treatment to large-scale investment projects. Key provisions include a reduced corporate income tax rate of 25%, accelerated depreciation, unlimited tax-loss carryforwards transferable after five years, and a lower dividend withholding tax of 3.5%. Beneficiaries also receive Value-Added Tax (VAT) relief through transferable tax credit certificates, and exemptions from import duties on capital goods, spare parts, and consumables. To ensure compatibility with the Organisation for Economic Co-operation and Development (OECD)'s global minimum tax, however, the law limits the benefits so that effective rates cannot fall below 15% (Iglesias Mamone 2024).

Tax Reductions and Eliminations under Milei (to May 2025)

Milei's administration reduced or eliminated 19 distinct taxes, a sweeping reform that decreased tax complexity, eased administrative burdens for bureaucrats, and provided meaningful tax relief. Refer to Table 1 in the appendix for the full breakdown of changes from December 2023 to May 2025 (based on Lisicki, Litvin & Abelevich via Giménez (2025)).

4.2.2. Proposed and Pending Reforms (Beyond mid-2025)

As of June 2025, the Milei administration is preparing a second wave of tax reform focused on radical simplification. Because the IMF deal imposes stringent fiscal surplus targets for the upcoming years, this significantly limits the potential for reducing the tax burden. Milei has stated his intention to reduce Argentina's tax system to "no more than six taxes", eliminating 90% of existing levies by number—not by revenue share (Spirlet 2024). Plans include merging national, provincial, and municipal taxes into a limited set of broad-based instruments,

potentially retaining only VAT, a corporate or simplified income tax, one social security contribution, and a few excises (Blue Dollar 2025; Consejo Profesional de Ciencias Económicas de Santa Fe (CPCE) 2024).

According to IARAF, 33 federal taxes generate minimal revenue and could be repealed with little fiscal impact. These include luxury charges, cellphone and cable TV taxes, and obsolete items such as a tax on VHS tapes (Consejo Profesional de Ciencias Económicas de Santa Fe (CPCE) 2024). By mid-2025, the government was drafting legislation to consolidate and eliminate dozens of such charges.

Federal–Provincial Tax Restructuring

Aligned with broader decentralization efforts, Milei has proposed replacing the provincial Gross Income Tax (Ingresos Brutos)—a cascading levy blamed for price distortions—with a harmonized provincial VAT (“Super VAT”) (Infobae 2025). This would entail renegotiating the federal revenue-sharing agreement and giving provinces autonomy over major taxes. Taxes identified for elimination include Impuesto sobre los Ingresos Brutos (IIBB), stamp duties, fuel levies, the Buenos Aires inheritance tax, and multiple local fees. By June 2025, negotiations for a “Federal Tax Agreement” were ongoing (Consejo Profesional de Ciencias Económicas de Santa Fe (CPCE) 2024; Blue Dollar 2025). However, resistance remains: IIBB generates 26% of provincial revenue (Instituto para el Desarrollo Social Argentino (IDESIA) 2025). Some governors have proposed a “compensated Super VAT” in exchange for dropping IIBB. The full implementation may require constitutional reform.

Maintaining Fiscal Discipline

All proposed tax reductions are conditioned on meeting IMF-defined fiscal benchmarks. The Fund’s 2025 review emphasized that widespread tax cuts must follow the attainment of a 2.5%

primary surplus by 2027 (Blue Dollar 2025). As a result, many 2024 tax cuts were phased or reversible. Comprehensive tax code reform, announced for 2025, remains contingent upon successful fiscal consolidation.

4.2.3. Early Outcomes and Empirical Indicators

Argentina's tax burden did not decline sharply during the first phase of reform. The latest comparable annual OECD data show that Argentina's tax-to-GDP ratio decreased only slightly, from 27.7% in 2023 to 27.6% in 2024, indicating broad revenue stability rather than a major collapse in tax receipts (OECD et al. 2026). Monthly tax-collection data for June 2025 likewise show that federal revenue remained substantial: total tax revenue reached ARS 16.184 trillion, with VAT accounting for ARS 5.110 trillion, income tax for ARS 2.886 trillion, social-security revenue for ARS 3.540 trillion, and export duties for ARS 1.220 trillion (ARCA 2025). The most visible compositional change was the elimination of the PAIS tax, which had still raised ARS 780.042 billion in June 2024. At the same time, VAT, income tax, social-security contributions, and trade-related taxes remained central to federal collection (ARCA 2025).

Evidence of general Laffer-curve dynamics should therefore be formulated cautiously. The available data support selected tax-base and timing effects, but not a general causal claim that tax cuts increased total revenue. In June 2025, export-duty revenue rose by 183.9% year-on-year, partly because this was the final month of the temporary reduction in agricultural export duties under Decree 38/2025. The reduced rates applied, inter alia, to soybeans, soybean oil and pellets, wheat, maize, and regional economies (ARCA 2025). Reuters similarly reported that the expected July increase in export taxes on soybeans, soybean derivatives, and maize led farmers to bring forward sales before the rate change (Reuters 2025b). This should be interpreted as front-loaded export declarations and temporary revenue acceleration rather than as conclusive evidence of a general revenue-maximizing tax-cut effect.

Compliance and Formalization

Tax simplification helped reduce informality. Previously, effective tax rates for Small and Medium-sized Enterprises (SMEs) sometimes surpassed 100% of profits (Brattström 2024). Raising the Monotributo threshold and easing burdens on the self-employed contributed to increased registration. Public perception of tax fairness improved modestly, as indicated by mid-2025 surveys (Giménez 2025; Associated Press 2024b). However, real revenue from IIBB declined by 17.5% in early 2025 (Somos Cítrica 2025).

Investment and Growth Effects

Tax and spending reforms supported a modest recovery from recession. Q3 2024 GDP grew by 3.9%, driven by private investment under the RIGI regime and stronger household demand (Spirlet 2024). Trade liberalization and currency appreciation also supported capital upgrades.

Short-term hardship was significant. Inflation and subsidy cuts led to a poverty spike in early 2024, peaking at 52.9%. Unemployment rose, and 200,000 construction jobs were lost (Associated Press 2024b). By mid-2025, however, inflation had fallen to ~3% monthly, and the economy showed signs of renewed growth (Brattström 2024).

4.3. *Privatization Initiatives: Transitioning State-Owned Enterprises to Private Ownership*

4.3.1. Reform Framework

The original Ley Bases bill included the sell-off of high-profile firms such as Yacimientos Petrolíferos Fiscales (YPF), Aerolíneas Argentinas, and Correo Argentino. However, political resistance led to major revisions: Some were removed from the list entirely, others were restricted to partial sales. The final Law 27.742, enacted by mid-2024, granted legal authority to proceed with privatizing a

first batch of eight State-Owned Enterprises (SOEs) (La Derecha Diario 2025; Grainger 2025).

A dedicated Public Enterprises Transformation Agency, led by Diego Chaher, was established to accelerate preparations for nearly 60 companies, with a structured timeline of 6–8 months per company (Oficina del Presidente 2024; Grainger 2024). Privatization methods include Initial Public Offerings (IPOs), direct tenders, operational concessions, or transfers to provinces or employee cooperatives. Milei reaffirmed his commitment to privatization as a long-term strategy, describing it as the end of the “Estado empresario” (business state) in Argentina (Oficina del Presidente 2024).

4.3.2. Energy Sector: Oil, Gas, and Power

YPF (Oil & Gas)

Milei’s original privatization plan included Argentina’s largest oil company, YPF (majority state-owned since a 2012 renationalization), but it was removed from the reform bill in January 2024 due to strong cross-party opposition (Grainger 2023). While YPF remains public, the government has moved to decentralize operations, returning some mature oil fields to provinces like Santa Cruz (Grainger 2023).

Enarsa (Energy Integration)

In contrast, Enarsa entered active privatization in April 2025 under Decree 198/2025 (Newbery 2025). The company is being unbundled into about 15 units, including its 50% stake in Citelec/Transener, to be sold or concessioned through competitive bidding. Enarsa’s role has diminished as Liquefied Natural Gas (LNG) imports dropped (only 30 cargoes in 2024) thanks to rising domestic shale gas production (Newbery 2025). As of mid-2025, asset valuation and divestment planning were underway (La Derecha Diario 2025). The challenge will be ensuring competitive bidding and avoiding a fire-sale.

Nucleoeléctrica (Nuclear Energy)

Nucleoeléctrica was included in Law 27.742 for partial privatization, allowing up to 49% of shares to be sold while maintaining state control and veto rights (El Economista 2024). The government intends to launch an international tender to attract investment without compromising safety oversight (La Derecha Diario 2025). Legislative safeguards were added to ensure a state golden share and preserve strategic oversight, reflecting cross-party consensus that nuclear energy should not be fully subject to profit motives (El Economista 2024).

Yacimientos Carboníferos Río Turbio (YCRT) (Coal Mine)

YCRT in Santa Cruz province was authorized for full sale. Known for inefficiency and high subsidies, it is viewed even by the opposition as a “white elephant”. A tender granting the operator management control is being prepared as of June 2025, though the mine’s low output and remote location deter investors (La Derecha Diario 2025).

Other Energy Measures

Beyond headline cases, the government is selling transmission assets via Enarsa’s breakup and liberalizing energy markets (La Derecha Diario 2025). Milei’s philosophy is that the state should regulate rather than operate in energy. Accordingly, fuel price controls were loosened, and regulatory bodies strengthened to prepare for greater competition. These policy shifts, while not privatizations per se, complement the sell-off efforts by liberalizing the energy sector’s operating environment. Success will depend on attracting serious investment and avoiding past mistakes of underregulated monopolies. Argentina attempts to follow Chile’s example of private-led efficiency gains, though that model also required strong regulatory institutions (Megginson and Netter 2001, p. 5).

4.3.3. Transportation Sector: Airlines, Railways, and Roads

Aerolíneas Argentinas (Flag Carrier Airline)

Aerolíneas Argentinas has received over US\$8 billion in subsidies since its 2008 renationalization (Madry 2025). Although initially included in the Ley Bases, privatization was dropped during Senate negotiations (Cantando 2024). By mid-2025, Congress had not approved its sale, but restructuring led to a monthly profit in July 2024—its first in seven years (Madry 2025). The government aims to deregulate air routes via an “open skies” policy and is exploring divestment options, such as spinning off Embraer jets into a new provincial airline with Córdoba (Grainger 2024). Despite interest, no buyer has emerged and labor unrest remains a major hurdle (Madry 2025).

Railways – Freight and Passenger

Argentina’s rail network, much of it re-nationalized between 2013 and 2015, is targeted for privatization under Milei. The government distinguishes between freight rail, seen as commercially viable, and passenger rail, deemed a social service. Freight operator Belgrano Cargas y Logística S.A., managing 7,600 km across 17 provinces, will be dismantled under Decree 60/2025: rolling stock auctioned, infrastructure concessioned with open access, and workshops leased (Ámbito 2025b). The firm was deficit-prone and stagnant despite agricultural export growth (Oficina del Presidente 2024). Nearly 1,900 layoffs in 2024 preceded the reform, sparking union protests (Oficina del Presidente 2024; Hospital 2025). Passenger operator SOFSE remains state-owned but is authorized for service concessions under the Ley Bases; routes were reduced and State-Owned Enterprise (SOE) Trenes Argentinos Capital Humano Highways and Roads

The highway SOE Corredores Viales S.A., created in 2017 to manage national toll roads, is being privatized via long-term concessions authorized by Decree 97/2025 (Feb 2025) (Memo 2025).

Between 2020 and 2023, Corredores Viales required about AR\$6.7 billion (~US\$6.2 million at the time) in state subsidies to meet its operational and safety standards (Swissinfo 2025).

Airports and Navigation Services

Intercargo S.A.U., the state airport ground-handling monopoly, was deregulated in November 2024 and set for privatization via Decree 198/2025 (Ámbito 2025a; Swissinfo 2025). Despite charging airlines, it required AR\$6.7 billion in subsidies between 2020–2023 to meet standards (Ámbito 2025a). Privatization aims to attract private capital for needed upgrades in equipment, IT, and training, improving service efficiency amid fiscal constraints.

4.3.4. Communications and Media: Postal Service, News Agency, and Telecom

Correo Argentino (Postal Service)

Privatized in 1997 and renationalized in 2003, Correo Argentino has since operated as a SOE with 1,400 branches and ~15,000 employees (El País 2024). Initially included in the Ley Bases, its privatization was shelved amid political pushback. Instead, Milei deregulated the postal sector via decree in November 2024, ending Correo's monopoly and opening the market to private competitors (Clarín 2024; El País 2024). The firm has ceased receiving Treasury subsidies, and privatization plans remain under consideration (Ámbito 2025a).

Télam (State News Agency)

In early 2024, Milei ordered the closure of Télam, the state news agency founded in 1945, accusing it of serving as a kirchnerista propaganda tool (D'Eramo 2024). Unlike other SOEs, it was not

included in the Ley Bases but liquidated directly via decree. Most staff were dismissed through a “Procedimiento Preventivo de Crisis” process, a legal mechanism for collective layoffs with reduced severance (D’Eramo 2024). The move sparked criticism from unions and press freedom groups (France 24 2024), but Milei defended it as ending state-sponsored media and fostering independent journalism—echoing Rothbards critique of government control over information (D’Eramo 2024).

Radio y Televisión Argentina Sociedad del Estado (RTA) (Public Broadcasting)

Public broadcaster RTA, which includes TV Pública (Channel 7), Radio Nacional (with dozens of stations) and associated digital channels, remains under state control but was authorized for privatization in Law 27.742 (D’Eramo 2024). Unlike Télam, RTA was initially included in the privatization law’s annex. The law’s passage means RTA is legally authorized to be privatized or reformed. However, Milei’s government has tread carefully here. Recognizing the sensitive nature of public broadcasting, the administration chose to intervene RTA by appointing an outsider as interventor to manage it temporarily (D’Eramo 2024). The government has cut budgets, reduced programming, and floated options including concession, partial privatization, or closure. Formal action is still pending, but restructuring has begun (D’Eramo 2024).

Empresa Argentina de Soluciones Satelitales S.A. (ARSAT) (Telecom Infrastructure)

ARSAT, which manages Argentina’s telecom satellites and broadband network, is pursuing a partial Initial Public Offering (IPO) to sell up to 49% of its equity while maintaining state control (El Economista 2024; Grainger 2024). The goal is to improve performance by introducing private capital and market discipline. While state influence may limit full efficiency, even partial privatizations

tend to boost profitability and productivity (Megginson and Netter 2001).

4.3.5. Banking Privatization Efforts

Banco de la Nación Argentina (BNA), Argentina's largest state-owned bank, was initially slated for full privatization, but political resistance limited the Ley Bases to permit only a partial sale with majority state control (El Economista 2024). Decree 121/2025 converted it into a sociedad anónima, enabling private capital raising (Grainger 2025). By mid-2025, the state still holds 99.9%, but up to 49% can now be sold via IPO or private placement (Grainger 2025). Advocates argue privatization would improve efficiency and align with a state focused on regulation, not ownership (Grainger 2025).

4.3.6. Theoretical Reflection

Milei's privatization agenda draws on both neoclassical and Austrian economics. Neoclassical theory highlights efficiency gains from private ownership due to profit incentives, competition, and hard budget constraints, while SOEs face soft budget constraints and X-inefficiency. Empirical studies show that privatized firms tend to improve in performance and profitability (Megginson and Netter 2001, p. 1; Shleifer 1998, p. 147).

Austrian economists like Mises, Hayek, and Rothbard offer a deeper critique: state ownership misallocates resources due to the absence of price signals and profit-loss mechanisms. Mises argues bureaucracy cannot replicate market coordination (Mises 1977, p. 159), Rothbard sees government enterprise as inherently inefficient (Rothbard 2022), and Hayek warns of the planner's knowledge problem. State firms may mask inefficiency with subsidies, but these distortions eventually become fiscally unsustainable.

In this sense, privatization links fiscal consolidation to institutional liberalization: it seeks to remove soft budget constraints and transfer production decisions from political allocation to market discipline.

5. Conclusion

This paper examined Argentina's fiscal consolidation under Javier Milei as an institutional attempt to move the country away from deficit finance, discretionary redistribution, inflationary accommodation, and recurrent emergency governance. Its central argument is that Milei's reform program cannot be understood solely through monetary restabilization alone but the fiscal consolidation that accompanies this process. Before a durable monetary order could plausibly emerge, Argentina first had to confront the fiscal foundations of its instability if it was to avoid repeating the failure of the Menem era: chronic deficits, subsidy dependence, public-sector overextension, fragmented taxation, discretionary federal transfers, and weak budgetary discipline all had to be addressed.

The evidence suggests that the Milei administration achieved a rapid fiscal correction as a necessary precondition for long-term monetary reform. Expenditure restraint, subsidy reduction, public-sector retrenchment, lower discretionary transfers, and selected revenue measures produced a marked improvement in the primary fiscal balance within a short period. In this narrow accounting sense, the program showed that even a state long considered fiscally rigid could reduce spending commitments once political incentives changed. The primary balance, however, should be analytically separated from debt management. Liability restructuring, the conversion of inherited central-bank obligations into Treasury instruments, and the support from the International Monetary Fund affected financing conditions, reserve accumulation, rollover risks, interest burdens, and credibility.

This distinction is important for assessing the reform process. The restructuring of inherited quasi-fiscal liabilities made the fiscal position more transparent, but also shifted pressure onto the Treasury. In a Hoppean perspective, the decision not to repudiate inherited public debt remains open to criticism, since repayment burdens future taxpayers who did not voluntarily assume those obligations. From a credibility-oriented institutional perspective, however, avoiding unilateral default can be interpreted as part of the government's attempt to restore contractual reliability and future market access.

The broader fiscal strategy combined several mutually reinforcing elements. Public-sector retrenchment addressed the immediate expenditure problem. Subsidy cuts corrected relative prices and reduced fiscal and quasi-fiscal distortions. Federal–provincial realignment attempted to weaken common-pool incentives and impose harder budget constraints on subnational governments. Tax reorganization reflected the tension between long-term liberalization and short-term revenue needs. Privatization initiatives sought to reduce the fiscal burden of state-owned enterprises and limit future contingent liabilities. Together, these measures formed a serious attempt to replace soft budget constraints with a more disciplined institutional order.

At the same time, the adjustment imposed substantial short-term costs. Public works suspension, employment losses, falling real incomes in parts of the economy, and high poverty during the initial shock increased social pressure and exposed the political limits of austerity.

Selected structural liberalization measures matter in this context as supporting conditions rather than as a separate reform narrative. Labor-market reform, rental deregulation, land-market liberalization, investment incentives, and bureaucratic simplification affect the conditions under which expenditure restraint can become durable. A lower-spending state requires a private sector capable of absorbing labor, capital, and entrepreneurial activity previously tied to public payrolls, subsidies, controlled prices, or protected sectors. Without such adjustment capacity, austerity risks remaining contractionary rather than transformational.

The Argentine case highlights the importance of distinguishing between fiscal correction, fiscal credibility, and fiscal consolidation. Fiscal correction can be achieved quickly through expenditure cuts, subsidy reductions, public-sector retrenchment, and temporary revenue measures. Fiscal credibility, however, requires that households, firms, provinces, and investors believe that the state will not return to deficit monetization, discretionary transfers, or emergency controls once political pressure rises. Fiscal consolidation, in the stronger sense, depends on whether these constraints become durable institutions rather than temporary emergency measures.

Further research should examine whether Argentina's fiscal correction can survive electoral cycles, social strain, provincial resistance, and renewed demands for redistribution. Particular attention should be paid to expenditure composition, tax reform, debt service, poverty, informality, real wages, and private-sector recovery. Also monetary restabilization and financial liberalization under Milei should be analyzed, since fiscal balance is a necessary but not sufficient condition for durable monetary credibility.

The Argentine case is relevant for Austrian and institutional political economy because it illustrates the connection between fiscal dominance, monetary instability, and distorted market coordination. Inflation was not merely a technical monetary phenomenon, but the consequence of a fiscal regime in which political promises repeatedly exceeded sustainable financing capacity. Monetary expansion then became the mechanism through which fiscal conflict was postponed and redistributed. Under these conditions, fiscal consolidation is not simply an accounting exercise. It is an attempt to alter the incentive structure of the political system itself.

The contribution of this paper is therefore limited but specific. It offers an early fiscal-institutional interpretation of Argentina's adjustment process, identifies the main mechanisms of consolidation, and evaluates their sequencing, constraints, and early observable effects. Milei's early fiscal consolidation represents one of the most ambitious attempts in recent Argentine history to break with deficit spending, inflationary finance, interventionist controls, and discretionary state allocation. Its early results indicate a serious fiscal correction and a coherent effort to impose harder budget constraints.

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Appendix

Tax Reductions and Eliminations under Milei (to May 2025)

Below is a summary of the taxes reduced or abolished by the Milei administration as identified by Lisicki, Litvin & Abelovich (via Giménez 2025):

1. PAIS tax on foreign currency, abroad services, and imports eliminated (expired 23 Dec 2024).
2. Export withholding taxes on key agricultural commodities temporarily canceled (some extended to 2026).
3. Monotributo reform: maximum annual invoicing threshold raised from AR\$16 m to AR\$68 m.
4. Bienes Personales (assets tax) reform: higher non-taxable floor and installment discount options.
5. Reduced tax burden for self-employed via adjustments in Monotributo.
6. Internal vehicle taxes removed for cars priced between AR\$41 m–75 m and above.
7. Import duties reduced for electric/hybrid cars under US\$16,000 (quota: 50,000 units/year).
8. Cell phone import duties reduced gradually from 16% to 8% by 2026.
9. Internal taxes on imported electronics lowered from 19% to 9.5%; zeroed for Tierra del Fuego production.
10. Import duties on video game consoles cut from 35% to 20%.
11. Real estate transfer tax (ITI) eliminated.
12. Tariffs removed on first US\$400 of online purchases via courier.
13. Export retentions reduced or removed for dairy, pork, select beef cuts, and poultry.
14. Retentions eliminated on exports of over 4,400 industrial products.
15. 30% withholding on “savings dollars” (USD purchases for saving) removed.
16. Tariffs on capital goods imports eliminated.

17. Import duties lowered on textiles, footwear, yarns, and fabrics.
18. Fee for exhibiting foreign films domestically abolished.
19. RIGI incentives granted: tax and import-duty benefits for large investments.

Table 1: Key tax reductions and eliminations under President Milei ($\leq$ May 2025).

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LIBERATION THEOLOGY ‘VERSUS’ PROSPERITY THEOLOGY

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Abstract: Theology and politics are disciplines that stem from the human need to question the future. Both respond in the same way: by promising paradises in this world and/or the next. In this sense, both aim to fulfil faith, offer hope, and encourage people to adhere to certain beliefs and ideas. It is therefore not surprising that throughout history we find instances where theology and politics collaborate and/or compete. In the ‘modern’ era, we can observe this phenomenon in the Americas. There, the Bible has been used from the 17th century to the present day as part of the political debate on how the social order should be structured. This has given rise to two opposing theological-political visions: liberation theology and prosperity theology.

Keywords: Theology, Political Theology, Ideology, Social Sciences.

JEL Classification: D 74; F 51; E 2; E 59; P 16.

I. THE COMMON GROUND BETWEEN RELIGION AND POLITICS

Rationalist liberalism *believed* that a ‘perpetual peace’ based solely on reason was possible¹. That a *general, rational, formal ethics* would put an end to the disputes caused by differing human *beliefs*². Among other consequences, such naivety led many to *believe* that *legislation*

¹ Kant, I., 1999. We believe that Kant’s choice of title for this short work is highly significant. It serves to contrast with the perpetual peace promised by religion. Note that the idea of ‘perpetual peace’ has its origins in Isaiah (*Isa.* 9:7).

² Kant, I., 2001.

based on this kind of ethics would serve to organise society without regard to political and religious *beliefs*³. Thus, ‘modernity’ placed society at the mercy of the experiments of the so-called ‘social scientists’. So-called ‘political science’, ‘sociology’, ‘social psychology’, ‘econometrics’ and ‘positive law’, amongst other disciplines, replaced ‘political theology’, ‘moral theology’, ‘anthropological theology’ and ‘law’. Similarly, the ancient *sage* was replaced by the ‘positivist jurist’, the ‘econometrician’ and the ‘political scientist’. We are already familiar with the result of subjecting human practical action to hollow formal principles, to number, weight and measure. There is a straight and direct line linking ‘modern’ secular ideologies to the massacres of Catholics during the French Revolution, the camps at Auschwitz and, more recently, the legal acceptance of euthanasia in Europe and the declaration of the so-called right to abortion in the reform of the French Constitution in March 2024.

The lesson we should take from this story is as follows. Human beings cannot have a ‘worldview’⁴ without *beliefs*. Thus, when people decide to stop worshipping God (in Europe’s case, the Christian God), they immediately fall to their knees before the worst of men (the politician) and/or an animal and/or a stone and/or a tree and/or Pachamama. So, rather than placing our trust in human reason alone, or hoping that a world without human beings would be much better than one in which we exist, we must examine our *beliefs* very carefully. And, of course, because we are necessarily beings of *belief*, we are the only *theological* and/or *political* beings on earth.

A) Faculties involved in the examination of beliefs

Given everything that is at stake if our *beliefs* are incorrect, the truth is that there are certain difficulties when it comes to examining their plausibility. One of these is that both *reason* and the *heart* play a part in this inquiry. I am not being sentimental when I refer to the ‘heart’. I am being very precise in pointing out that *beliefs*

³ Kant, I., 1998, (preface) B134, note k). See also Comte, A., 1982.

⁴ Atticus, C., (2), 2025, p. 211.

about what *the future ought to be* like necessarily entail a *volitional commitment* on the part of human beings. This is so important that, when human beings adhere to certain *beliefs*, they form groups of like-minded people and, let us note, from within these groups, they promote actions to achieve their objectives or, where appropriate, fight against other groups that may oppose them. The model of how ideologies function that we have proposed takes this phenomenon into account⁵. Nor would I wish for my reference to *reason* and the *heart* — as faculties involved in the analysis of *beliefs* — to give rise to the idea that this examination involves a *rational* part and an *irrational* part. Such a judgement would imply that the *volitional* aspect of human nature is always arbitrary, whilst reason is always very sensible. And that is not the case. *Reason* can be highly irrational, just as the *heart* can be orderly⁶. Therefore, the idea that it is *reason* which always governs the *heart* is not true. This assertion presupposes the questionable claim that reason is a higher faculty than the will and, furthermore, overlooks, amongst other things, all those situations in which *reason* seeks the paths and means to achieve the end proposed by the *heart*⁷. This is so important that, to a very large extent, it is in the human heart that the ends each person *believes* necessary for their happiness arise. The (all too common) misconception stems from the rationalisation of morality. At least since the myth of the charioteer in Plato's dialogue *Phaedrus*, a framework has been employed in which *correct practical action* is that in which the will obeys reason. Yet, on even the slightest reflection, there are just as many reasons to regard both reason and the heart as *essential* to the human being. In fact, the very same argument used to identify *reason* as an essential human quality also serves to highlight the *heart*; that is to say, the emotional spectrum of human beings is incomparably broader and more sophisticated than that of any animal (just as is the case with reason). This brief digression, on which I have dwelt a little, is relevant to our topic for the following reason. I would like to high-

⁵ Atticus, C., (2), 2023; LVII, 2024; (2) 2025.

⁶ St Augustine, *De Civ. Dei*, XV, 22.

⁷ "Man not only lives, but loves and reasons; in him, biological life reaches its highest level" (Lewis, S.C., 2006, p.170). See also Atticus, C., 2024.

light that both *reason* and the *heart* need to be *cultivated* in order to function properly and, in this way, to be able to assess the plausibility of certain *beliefs*⁸. To use Plato's metaphor, the charioteer must be trained as such and, in this way, *believe* that he will succeed in the race, *devise* a strategy to win it and, of course, ensure that his two horses are trained (tamed) to pull the chariot. The Hebrews integrated these two dimensions of the human being very well through the word '*lev*' (*Deut.* 6:5; *Prov.* 13:22, etc.).

It is at this point that we come face to face with the question that dominates all *practical-social disciplines* and, naturally, *political theology* as well: What *should we believe*? Not what should we think! For, as we shall see, the sole function of reason, at the very heart of the *practical-social disciplines*, is to provide a framework of *ideas* for *beliefs*. Now, when we seek to answer the question of what we ought to *believe*, we realise that there are no educational institutions dedicated to *the heart*. Or, when some do attempt something of the sort — what is termed 'values education' — one might well suspect that such institutions *are indoctrinating*. This situation brings us back to the importance of religion and politics in education and, of course, to the need to correct our *beliefs*. The solution to this issue is very difficult. As we shall see throughout this article, it is all too easy for a person to end up losing their way amidst false or even perverse *beliefs*.

Well then, now that we know that politics and religion are directed towards human *beliefs*; and that we also know that *beliefs* form a fundamental part of any 'worldview' and determine how ideologies function; let us examine which human faculties are responsible for driving human beings, spurred on by these *beliefs*.

B) The human faculties that are the focus of politics and religion

Despite the fact that it is commonplace and a constant occurrence for those in political and religious power to *err* and *deceive* by

⁸ Atticus, C., 2024, pp. 24 ff.

exploiting people's *beliefs*, the question is why human beings — even though we see this happen time and time again — continue *to believe* and, naturally, expose ourselves to the *errors* and *deceptions* of those in power. I believe the answer lies — though it may not be definitive — in our nature as beings who '*construct*' themselves towards the *future* alongside others⁹. If the *future* were not so important to us (both individually and as a community), political and religious *promises* would certainly not affect us in the way they do. Yet, from the moment we are born, we are beings in a state of constant *construction*. We do not reach the fullness of our being in the same way as, for example, a cat does (within a year of birth). Rather, throughout our entire lives we are constantly contracting or expanding our being. For this reason, unlike the cat, *truth*, *goodness* and *beauty* form part of the future horizon of every action. So, from the moment we come into this world, we are propelled forward in life by *promises* of future rewards and/or punishments (concerning what is true, good and beautiful). And, naturally, it is our adherence—or lack thereof—to these *promises* which, through *trust*, shapes within each of us many of our judgements about what is true and good. And this is something so essential to our human condition that there is a set of *faculties* designed to ensure that the *promise* has such an effect on us. It is precisely these faculties that both politics and religion address: *hope*, *faith* and *love*. So, in line with what we have said, we can similarly say that civil and religious leaders become a kind of 'father' to others in adult life¹⁰. Everyday language tells us a great deal about this. We speak of the 'father of the nation', the 'fathers of the constitution', we refer to certain political or religious attitudes as 'paternalistic', or we use the word 'mother' to refer to the Virgin Mary or the Church, or the word 'father' to refer to priests — even though the Lord warns us not to call anyone by such titles (*Mt 23:9*), etc.

The substance of political and religious *promises* is very similar. Both offer us a *paradise* on earth or in heaven — or even on earth and in heaven. And, of course, from there on, their entire line of

⁹ Atticus, C., 2024.

¹⁰ The concept of 'authority' is central to this whole subject. C.S. Lewis says: "Nine-nine per cent of the things we believe, we believe on authority" (Lewis, C.S., 2006, p. 79).

argument consists of inspiring *faith* in certain *beliefs*, so that the human *heart* may align itself with its *will* — by adhering to a *person* (hence the word ‘authority’) — in order to share (with others) in a *hope* that serves as the driving force for one’s life project towards the future. In light of this, one can perfectly understand the scenarios in which politics and religion have either allied themselves or fought against one another.

We do not wish to conclude this section without addressing a question that the reader may well have asked themselves. I am referring to whether what we have stated leads to the conclusion that religion is an *ideology*. To put it another way, in the worst sense of the term ‘*ideology*’, whether religion and politics are, in any case, a *deception*. Paul VI, for example, sought to distinguish the *Catholic religion* from *ideology*¹¹, implying that the deceptive phenomenon of *ideologies* has no place in religion. The Holy Father was not particularly subtle on this point. We need to clarify our thinking somewhat regarding the notion of ‘*ideology*’¹². Religion entails a ‘*worldview*’ and, as such, becomes ‘*ideological*’ the moment it clashes with other, distinct ‘*worldviews*’ (whether secular or religious). Now, just as with political ideologies, there are religious ‘*worldviews*’ that are truer and better than others. And, of course, in this sense, there is no question of ‘*deception*’ in religion or politics. Rather, as we said at the outset, what we must be very conscious of is the truth and goodness inherent in what *we believe*.

More precisely, in the case of the *Catholic Christian faith*, it is the only one which, from its very origins, has subjected its *beliefs* to the scrutiny of *reason* and the *heart*. It alone has analysed the plausibility and goodness of its beliefs by weighing them on the scales of the heart and reason. This has been the case ever since Saint Justin (2nd century) stated that ‘*all truth belongs to us*’¹³. This has, natu-

¹¹ Paul VI, *Evangelii Nuntiandi*, 1975. One of the most confusing developments to have emerged from the Second Vatican Council is the so-called dialogue with the ‘modern world’ (see *Gaudium et Spes*, 1965), ecumenism (see *Unitatis Redintegratio*, 1964) or ‘interreligious dialogue’ (see *Nostrae Aetate*, 1965). This attitude dissolves the Good News entrusted to the Catholic Church like a sugar cube in a glass of water, amidst the proposals of a ‘brave new world’ put forward by secular politics and other religions.

¹² Atticus, C., (2), 2025, p. 211.

¹³ St Justin, *Second Apology*, XIII, 4.

rally, led to Christianity playing a part, in one way or another, in all the philosophical and scientific debates that have taken place in the West. And, in the same way, it has meant that it has been affected by schisms caused by *ideological* differences. This situation explains why we are able to address a topic such as that of this article (in which we shall examine two very distinct positions regarding the political use of the Bible).

We already know how important *beliefs* are in relation to the practical and social disciplines. We have also seen how politics and/or *religion* become fundamental in these matters by proposing visions of the future in which human beings are united as groups through the faculties (theological virtues) of *faith, hope* and *love*. Furthermore, we have explained why it is within the Christian religion that different interpretative approaches to the Bible can emerge. In short, we have thus far provided a full explanation of why both *Liberation Theology* and *Prosperity Theology* are possible. Well then, the first step in our analysis of these two *political theologies* will also be something common to both. I am referring to the biblical text that both theologies will use in a more general sense to explain their *political proposals*. This is the Book of Exodus.

II.

THE BOOK OF EXODUS, 'LIBERATION' AND 'PROSPERITY'

In a very recent speech by the President of Argentina, Mr Javier Milei, at the Davos Forum (January 2026), we saw him turn to the Book of Exodus in the Bible to illustrate the evils of socialist ideology on society. To many (especially in pagan Europe), the choice of the Exodus might seem eccentric, somewhat out of place. But President Milei was being entirely consistent with the political arguments commonly used in the Americas. The fact is that the Exodus has been used throughout the American continent since the 17th century to lend weight and credibility to certain political ideas.

Well then, in line with the political frameworks of our time (*liberalism* versus *socialism*), in the Americas we can distinguish between one interpretation of the Exodus based on *Liberation Theology* and another, very different one put forward by *Prosperity*

Theology. So, before examining the very different ways in which these two political currents use this text, it is worth asking ourselves: 1) What epistemological elements have been used to shape the *political archetype* of this myth (*reason, imagination, history*)? 2) How does this myth use political *power* and *freedom* as key elements of the *political archetype* it embodies? 3) What place do *law* and *money* occupy amongst these elements? 4) How does the Book of Exodus deal with the issue of *violence*? We shall answer these questions very briefly.

- 1) *The epistemological dimension of the Exodus.* The *historical-political myth* of the Exodus is very different from those found in the cultures of Mesopotamia and, more generally, in the cultures of the so-called 'Fertile Crescent' (to use James Henry Breasted's apt expression), in Egypt, in Greece or in Germanic culture. The Exodus *rationaly* weaves together *imagination* and *history*. In it we find historical figures, specific places and peoples, and verifiable events. And indeed, the narrative also contains many more elements than those that are strictly historical. However, we must not lose sight of the fact that the reason for this is that the aim is to provide a *convincing archetypal explanation*. This is achieved by drawing on reason, reality and imagination; yet, far from presenting something false — and this is the fundamental point in myth theory — what is presented to us is a *true archetype applicable to any era and society*¹⁴.
- 2) *Key elements of the political archetype found in the Book of Exodus.* The Book of Exodus presents us with a situation that we can recognise in many societies throughout history. The *Hebrew people* are being oppressed by the *political power* of the Pharaoh. This takes us straight to the *ideological core* of the story: the dialectic between *political power* and *freedom*. It should be remembered that the Hebrew people are not demanding better wages, nor do they wish to subvert the Pharaoh's power, change the Egyptian

¹⁴ Hence it has been said that it is a story that has survived the social process of political secularisation (Walzer, M., 1985, pp. 184—185; Hendel, R., 2001, pp. 601—622).

social order or replace his gods with the worship of Yahweh. None of that. The Hebrew people *wish to be free*. And here we see the common thread we have observed between politics and religion: the *hope* for the *promise of a paradise* different from that of the Pharaoh. God *promises* his people a '*new land*'.

From this point onwards, a whole series of lessons begins on *freedom* in relation to *political power*. Lessons which, as they are embodied in an *archetype*, are open to different interpretations. I would like to highlight one that will help us to define the *conceptual frameworks* with which we will explain both *Liberation Theology* and *Prosperity Theology*. I focus on the situation in which the Hebrew people begin to grow weary on their journey through the desert and fondly recall their condition of servitude under Pharaoh's rule. It is not that the Hebrew people have ceased to believe in God's promise of a new land; rather, they no longer wish to continue striving to cross the desert. Well then, this fact leads us to a relationship of profound significance: *political freedom* and *effort*.

- 3) *The place occupied by the Law and money*. Next, the Book of Exodus distinguishes the *true Law* from any other kind of *law*. In other words, it brings into play another set of concepts fundamental to political theory (authority and power). We can consider this idea in conjunction with what we have seen in the previous section. God's Law is given to Moses during the *Hebrew people's struggle for freedom* at the very moment when they succumb to that struggle. In this way, we can expand our conceptual framework for a *theory of politics* and *law* to include: *freedom*, *struggle* and *Law*. This sequence of ideas is sure to be sparking in the reader's mind a host of arguments and theoretical possibilities concerning politics and law.

The scenes of *the golden calf* and the *violent entry into the Promised Land* are used in the Book of Exodus to make assessments regarding *wealth*. Very briefly—as we shall examine this in greater detail later—we note that *Liberation Theology* will use the scene of *the golden calf* to argue how

pernicious wealth can be for human dignity¹⁵. Conversely, *Prosperity Theology* will use the scene of the *violent entry into the Promised Land* to argue that wealth is the reward God gives to those who strive¹⁶.

- 4) *The treatment of violence*. The Exodus myth could not be interpreted in political terms without this final element. Indeed, *violence* is present throughout the entire narrative. To leave Egypt, the Hebrew people must face the wrath of the Pharaoh. And, naturally, when they decide to return to Egypt, the Hebrew people will have to face the wrath of God. In addition to these two key scenes involving violence, the scene in which the Hebrew people reach the Promised Land is also very important (see the Books of *Joshua* and *Judges*).

Therefore, using our methodology¹⁷, the following *dialectical relationship* and the following *ideographs* will be key themes in our explanation of *Liberation Theology* and *Prosperity Theology*:

- a) **Dialectical relationship**: *Political power versus freedom*.
- b) Ideography (A): 'Paradise' (wealth as the promise of a new land).
- c) Ideogram (B): 'Violence' in its relationship with authority.
- d) Ideography (C): 'Law' (the relationship between freedom and effort).

III.

FROM THEOLOGY TO POLITICAL THEOLOGY

Political theology has sought to supplant the metaphysical perspective that dominated *scholastic theology*. By this I do not mean to suggest that *scholastic theology* had nothing to say about politics. It did

¹⁵ Trebolle, J., 2008, pp. 309—310.

¹⁶ For this reason, some oppose the use of the Exodus as an archetype of liberation: "As long as there are people who believe in the Yahweh of liberation, the world will not be free from the conquering Yahweh" (Coffe, J., 2014, p. 14).

¹⁷ Atticus, C., (2), 2023; LVII, 2024; (2) 2025.

indeed; but in a manner derived from *fundamental theology*, *dogmatic theology* and *moral theology*. However, as I say, from the 17th century onwards, the fact is that *political theology* began, for many, to become the dominant approach to reading the Bible. To understand the causes of this phenomenon (and why we can speak today of *Liberation Theology* and *Prosperity Theology*), we must look at two parallel developments: a) subjectivist intimism in the *spiritual reading* of the Bible; b) '*scientism*' in the reading of the Bible. From this point onwards, the Bible ceased to be a source of knowledge for the development of social life (e.g. Europe) or, as we shall see, the Bible became subject to *political hermeneutics* (e.g. America).

A) 'Modern' subjectivism, the death of God and political theology

In the 'modern' era, Luther put forward the arguments for confining the Christian religion to the privacy of the home¹⁸. Protestant ideas, in a sense, aligned with the secularist ideas of many French Enlightenment thinkers ("*the enemy of my enemy is my friend*")¹⁹. Consequently, at a certain point, the *Catholic Church* found itself ideologically besieged by the Protestant and secularist *beliefs* and *political ideas* of the French Enlightenment²⁰. Both, we emphasise, agreed on one point: *the Catholic Christian religion should not play a relevant role in the organisation of society*.

Kant's genius succeeded in giving systematic coherence to these two currents. The philosopher from Königsberg, who wept whilst reading Rousseau, devised a philosophical system (both theoretical and practical) in which *formal reason determined the world and human action*. The system produced the following results:

- a) By establishing the *formal practical laws* of human conduct, he believed he had 'scientifically' discovered (e.g. categorical imperatives) that which philosophers had

¹⁸ Bolch, E., 1968, pp. 152—181.

¹⁹ Many of the theologians to whom we shall refer declare themselves heirs to the Enlightenment tradition (Metz, J-B., 1968, p. 390; Rendtorff, T., 1972, pp. 73—74, etc.).

²⁰ For further details, see the first part of the article: Atticus, C., (2) 2024.

been discussing since ancient times, namely, *natural law* in human beings.

- b) On this basis, the Bible had to be interpreted by confining it to *natural law* (according to Kant), that is to say, within the limits of a priori practical principles²¹.
- c) And, based on (a) and (b), the *positive law* of the State and *practical law* could not contradict one another.

The significance of Kant's system lay in the fact that it applied the principle of 'modern science'—that of prioritising 'method' in order to arrive at the truth²²—and, as we have said, it appeared to rationally articulate the *natural law* in human beings²³. Consequently, not only Protestants in Europe, but also many secular pagans and even Catholics, were dazzled by Kantian philosophy. The spell continues to this day. However, there was a fundamental and very serious problem in Kant's system. The a priori and general principles he found in practical reason were *formal*. Thus, if one felt that, for example, the abolition of private property was a good thing, one could use Kant's formal imperatives to legislate on this matter for others. Kant, contrary to what even he might have expected from his system, had paved the way for *moral relativism*. It was Max Scheler's *Philosophy of Values* that highlighted this Kantian shortcoming²⁴. The consequence of all this was that the new battleground for politics and ethics became that of 'values'. Everyone — and this is a view that prevails today — ended up convinced that the law of the State was the ethical law (that what was good was whatever the State said it was). Thus, it is to the so-called 'fundamental rights' (of different 'generations') that 'modernity' would direct the ethical-political debate. Obviously, it is an outrage to take for granted and regard as indisputable that whatever the state says about the number

²¹ Kant, I., 1995; 1996.

²² Atticus, C., (2) 2024.

²³ It should be noted that this issue became very important following nominalism. Duns Scotus had argued, contrary to St Thomas Aquinas, that of the Ten Commandments, only those relating to the respect due to God were moral absolutes (*Ordinatio*, III).

²⁴ Scheler, M., 1922.

and content of fundamental rights is correct. Rather, a complete rethinking of how Kant framed the issue is required. But that is not the issue here. What we wish to highlight with the above is the way in which politics gradually encroached upon religion in Europe and shaped the interpretation of the Bible on the American continent.

Well then, in this context, the Bible ceased to be treated as a revealed Text and came to be treated as a collection of texts (genre theory), from different eras (historical method), which could be useful for understanding history in general²⁵. And, of course, along these lines, one might well question the 'positive authenticity' of its accounts. This is how Protestant and Enlightenment studies of the Bible began to proliferate, in which Christ came to be treated as if he were a politician. The linguistic and historical analyses that had begun during the Renaissance (Erasmus, Cardinal Cisneros, Spinoza, etc.) and which, in some cases—such as that of Spinoza—had taken a very clear political direction²⁶, now, driven by the secular impetus of the Enlightenment and the introspective approach of Protestantism, saw the political focus on the Bible come to the fore.

The first disastrous consequence of all these converging factors occurred during the Romantic period. Hegel, the most influential atheist theologian of that era (and in many respects to this day), spoke of the death of God²⁷, presented the State as a divinity amongst men²⁸, referred to the supermen destined to save

²⁵ Thus, Reimarus, H.S., 1768; far more biased: Thiry, P.H., 1769; see also Bauer, B., 1840; etc. These books are a prime example of an approach to the life of *Christ* in which his divine dimension has been entirely disregarded. See the critiques of these works by Schweitzer, A., 1906 and 1913. This author emphasises the idea that the historical method can vary greatly and, in this sense, the method is often chosen to suit what one wishes to say beforehand. A very balanced book, which highlights the need to integrate the historical aspect with that of faith, is Kähler, M., 1896. We would like to recommend reading the introduction to Benedict XVI's *Jesus of Nazareth* (2007); in it, the reader will find the accurate and balanced perspective that must be maintained on this subject.

²⁶ Spinoza, B., 1976. This approach endures in the works of such important recent authors as Schmitt, C., 1922

²⁷ Hegel, G.W.F., 1993, ch. VII.

²⁸ Hegel, G.W.F., 1830, §279

humanity²⁹ and, following Kant, defended the superiority of the German people³⁰.

B) Economists as ‘social scientists’ and interpreters of the Bible

With the Bible now open to the political interpretations of the age, it was only a matter of time before the approaches of the new ‘social sciences’ were used to select biblical texts for political ends. During the 17th and 18th centuries, the new emerging ‘social science’ with a quantitative capacity was economics. Utilitarian liberalism had followed in the theological footsteps of Protestantism (nothing good could be expected of man); thus, it reduced human action to a single principle: *selfishness*. Building on this, and treating social life as a market, it arrived at quantitative results that could be assessed in terms—let us note—of *efficiency*. Thus, the very philosopher who had proclaimed the death of God (Hegel), drew attention to the fact that Economics was the ‘most *modern of the sciences*’³¹ and, following in his footsteps, as is well known, Marx, using the empirical method (commodity = atom), developed a system in which the *market*, far from achieving efficient equilibria, led to a dialectic or struggle between social classes and, in its ultimate development, to *economic collapse*³².

Obviously, the debate between *liberals* and *socialists* became particularly heated over the question of method. It should be remembered that ‘modernity’ had reduced the question of truth to a problem of ‘method’³³. And, of course, it was inconceivable that these two secular ideologies should propose such vastly different earthly *paradises* — whilst both supposedly employing a scientific

²⁹ Hegel states: ‘Such are the great historical figures, whose very missions involve these great matters, which are the will of the world spirit’ (Hegel, G.W.F., 2003, p. 30)

³⁰ Kant, I., 2000, p. 43 ff.; Hegel, G.W.F., 2003, p. 208 ff. Drawing on this intellectual framework, the biologist Haeckel declared that the three levels of individuation are the cell, the individual and the state (see Haeckel, E., 1907, chap. VII).

³¹ Hegel, G.W.F., 1830, §189; 2000, §526.

³² Atticus, C., LIX, 2026.

³³ An example of this debate is that which took place within the Austrian School: Menger, C., 2006.

method. Adam Smith, John Locke, David Hume and, naturally, Marx and his followers, came to be regarded as the 'authorities'; the people to *be believed*. St Bonaventure, St Thomas Aquinas, Duns Scotus, Francisco de Vitoria, etc.—that is to say, all those who conceived of economics or law as a branch of theology—were deemed 'outdated'. This delusional *belief in politics* reached its peak amongst those who regarded atheism (e.g. '*scientific atheism*') as part of the solution. One need only read Engels' eulogy at Marx's grave on 17 March 1883; no further comment is needed.

This situation created a huge conflict with the *promise of paradise* conveyed by the Catholic Church. In terms of its *political offering*, Catholic Christianity promised only a better eschatological future (Rev. 21—22), whilst *Marxism* and *secular liberals* promised *paradise* here and now. The Catholic Church could promise no more. It was far more realistic than the Enlightenment thinkers of the century. The situation led the Catholic Church, on the one hand, to react against '*modernity*'³⁴, but, on the positive side, to initiate what is known as the social doctrine of the Church³⁵.

C) From economic Marxism to existential Marxism when interpreting the Bible

Liberation Theology not only reads the Bible in *Marxist economic* terms, but also — and this has been less widely highlighted — through the lens of *Marxist existential philosophy*. Let us examine this.

The influence of economic Marxism continued well into the period following the Second World War. The situation of the victors — both the United States and the USSR — gave the impression of a stalemate in the ideological struggle (*economic liberalism* versus *economic socialism*). But it did not take long for it to become clear to everyone that it was the citizens on the Soviet side of the Iron Curtain who were fleeing to the West in order to survive. The failure of the socialist economy was obvious. Neither had the five-year

³⁴ St Pius X, *Pascendi* (1907).

³⁵ Leo XIII, *Libertas* (1888) and *Rerum Novarum* (1891).

plans brought greater prosperity to the Soviet Union, nor had capitalism collapsed — as Marx had ‘scientifically’ predicted. Yet this situation did not lead the socialists to abandon their *beliefs* and *ideas*. On the contrary, they transformed them, shifting from the *economic question of capital* to the *existential question of capital*.

For socialists, the argument could no longer be that capitalism produced structural poverty. Now the argument was that *economic prosperity led to the degradation of the individual through consumption*. Just as Hegel had declared the *death of God* to pave the way for economic Marxism, certain French and German ‘intellectuals’ were joining forces to *kill off humanity* and continue to fuel socialist *beliefs*. Among the most prominent philosophers in this vein are Sartre and Heidegger. Sartre is the linchpin around which Marxism revolves, from its *economic* premises to its *existential* ones. He is the author who reconciles existentialism with socialism in his works *Being and Nothingness* (1943) and *Critique of Dialectical Reason* (1960). For his part, Heidegger had reduced the world to a relativist ‘circular’ interpretation³⁶. Thus, Marxist existentialist ‘intellectuals’ relied on these intellectual ‘authorities’ to—take note—attack the very *substance of the human being* under the pretext of liberating them from *capitalist cultural oppression*. Michel Foucault, Lévi-Strauss, and, in general, the entire *Frankfurt School* (Adorno, Habermas, Fromm, Marcuse, etc.) are authors whom we can classify within this trend. I am by no means exaggerating when I say that they advocate the *death of man* as the foundation of their new *socialist existential philosophy*. Here are some quotes from these philosophers: ‘the death of the second (God) is synonymous with the disappearance of the first (Man)’³⁷; ‘it is not possible to constitute man without dissolving him’³⁸ or ‘it is not possible to know anything about man except on condition that the philosophical myth of man is reduced to ashes’³⁹.

Against this intellectual backdrop, in the 1960s, the influence of political ideologies on theology in universities (including Catholic

³⁶ Heidegger, M., 2016, p. 312.

³⁷ Foucault, M., 1966, pp. 353 and 396.

³⁸ Lévi-Strauss, C., 1964, p. 357.

³⁹ Althusser, L., 1967, p. 236.

ones) was unstoppable. It no longer affected only societies steeped to the core in Protestantism and French secularism. The Second Vatican Council opened on a — mark my words! — 'modernist' note⁴⁰. Leading theologians at the Second Vatican Council, such as Karl Rahner—among others—an intellectual disciple of Heidegger, would form part of the so-called 'Catholic School of Heidegger' and, under the so-called '*anthropomorphic turn*', would extend Christian citizenship to all people of 'good will'⁴¹. Political correctness had become a criterion of the Catholic Church's magisterium (e.g. 'ecumenism', 'dialogue with other religions', etc.).

D) The '*anthropomorphic turn*' in the Catholic Church

When authors refer to *Liberation Theology*, the focus always falls on the Catholic Church. We have already explained the reason for this. However, it must not be forgotten that, before Marxism wreaked havoc on the Magisterium of the Catholic Church, it was within Protestant thought that Marxism took root without any difficulty. It is essential to bear this in mind, for it was through the influence of Protestant theologians on Catholic theologians that Marxist *economic* and *existential* delusions began, in fact, to spread through Catholic universities. This influence began, more or less, in the 1920s. Around that time, a significant movement of Catholic theologians emerged who ceased to focus on how *God can be understood by human beings* and — note the shift in focus! — turned their attention to *the idea that it is we humans who explain God when we speak of ourselves*⁴².

This hermeneutical approach combined — in different ways, according to the authors — *historical research* on Jesus of Nazareth, the findings of *the so-called 'social sciences'* and *existentialist philosophy*.

⁴⁰ See John XXIII's opening address to the Second Vatican Council (11 October 1962) and Paul VI's closing address to the Council (8 December 1968).

⁴¹ The expression used by Karl Rahner is '*anonymous Christians*' (Rahner, K., 1984, VI).

⁴² The phrase is from the Protestant theologian Bultmann, R., 1966—67, vol. 4, p. 33.

The blending of historical studies with those carried out *by the 'social sciences'* is quite natural. After all, history serves as a framework for drawing inferences and, where appropriate, for validating the findings of any supposed 'social science'. However, with regard to biblical studies, the *existentialist perspective* brought all these findings together in order — depending on the ideological slant — to present the biblical text as leaning towards one political current or another. If, when speaking of God, what really matters is what we say about Him — according to Bultmann and his followers — then it is clear that the *political promise* becomes the central focus of the biblical message. And so, one of the most influential Catholic exegetes began his work *A Marginal Jew* with the following hermeneutical criterion: '*The real Jesus is not the historical Jesus; the historical Jesus is not the real Jesus*'; and, later on, he points out that the '*real Jesus*' is not the '*theological Jesus*' either⁴³.

This approach led to a series of far-reaching consequences. The most significant for us is that it paved the way for politics to occupy the entire realm of theological *beliefs* and *ideas*. Thus, not long after the historical interpretations ranging from Reimarus's work to that of Bultmann (the period of the so-called 'first quest' for the historical Jesus), Catholic theologians began to echo Protestant slogans regarding the Bible in a relativist or political vein. Just two examples. Josep Dalmau states: "Every ideology sees God in a different way"⁴⁴ and, for his part, José Miranda asserts in his book *Marx and the Bible*: "It is not a question of finding parallels between the Bible and Marx, but simply of understanding the Bible (according to Marx's ideology)"⁴⁵.

In short, the antagonism and control that the *Catholic Christian religion* had, in many cases, exerted over secular political power was, and still is, in danger of disappearing. Indeed, upon examining the texts of that era — and indeed many of those of today — we see that they are full of 'modern' expressions and terms; the most disastrous and dangerous of these all (as we have discussed above)

⁴³ Meier, J.P., 1998—2005, I, p. 34.

⁴⁴ Dalmau, J., 1968, p. 138.

⁴⁵ Miranda, J., 1972, p. 16.

is that of *'human rights'*⁴⁶. In short, the saddest aspect of this story is that, at the time of the Second Vatican Council, many Spanish theologians acted as mere accomplices to Protestant thought, forgetting the successful Spanish Thomist intellectual heritage of the Council of Trent.

IV. LIBERATION THEOLOGY

The term "*liberation*" characterises *Marxist political theology* from the "*anthropocentric turn*" to which we have referred. What is the deeper meaning that socialist theologians ascribe to this term? God is not the fundamental Subject of *Theology* (quite literally, and I am not exaggerating); thus, His action — the primary one for the good of humankind (that of *'saving us'*) — is irrelevant. Consequently, the initiative in action and the means — for salvation lie exclusively in human hands. Hence, they substitute the word *'salvation'* with *'liberation'*⁴⁷.

What are the pillars of *Liberation Theology*? What leads a priest such as Camilo Torres to promote armed struggle in Colombia as a means of bringing about socialist social change? I would suggest that the reader recall the outline with which we concluded point II of this article (The *'Exodus'*, liberation and prosperity). We shall draw on it in the following explanation and, similarly, we shall use it when discussing *Prosperity Theology*.

A) The ideology of a socialist *'paradise'*

We have seen how the story of the Exodus gives rise to a *political archetype* in which the key element is the *liberation* of a people from the *political oppression* of the Pharaoh. The dialectic between *political power* and *freedom* is resolved in the fulfilment of *God's promise*

⁴⁶ *Pacem in Terris* (1963), *Gaudium et spes* (1965), *Centesimus annus* (1991), *Dignitas infinita* (2024), etc.

⁴⁷ Gutiérrez, 1972, p. 194.

of a *new land*; of an earthly *paradise*⁴⁸. Well then, liberation theologians use this *archetype* in a similar way to refer to the '*paradise*' that human beings must strive to achieve in this world. And, like *Marxists*, they will use the term '*social justice*' as the cornerstone upon which to justify their actions and the use of all means necessary to achieve it. Victimhood leads to a constellation of words through which they manage to lend weight to what they call '*social justice*'. Thus, the articles and books by these authors are rife with words such as 'the poor', 'the dispossessed', 'the marginalised', 'the discarded'⁴⁹, the 'Church of the poor'⁵⁰, and so on. Through all this, they seek to highlight the supposedly unjust situation of many people from which they must be liberated. Thus, having emotionally prepared their audience, they go so far as to state, in no uncertain terms, that God has taken the side of the poor and against the rich⁵¹. Along these lines, and from a Marxist perspective, of course, they justify violence as a method of social revolution⁵².

The principle of '*social justice*' is not only used by *liberation theologians* in its economic dimension to attack *private property*. Whilst '*surplus value*' is a fundamental concept in *Marxists'* economic analysis of social structures, in the *existential dimension of Marxism* the key term is '*surplus repression*'. And from there, another constellation of terms re-emerges: '*r consumerist indignity*', '*vital alienation*', '*critical spirit*', '*dialectic*' or '*deconstruction*'⁵³ to challenge any *stable personal, social, intellectual or even linguistic structure*. Indeed, the so-called *Theology of Revolution* (ideologically linked to *Liberation Theology*) emerged amongst French authors influenced by the May

⁴⁸ With regard to the Exodus, Miranda states in *Marx and the Bible*: "The fact that the God who intervenes in this way is the creator of all things and of all peoples lends enormous strength to this intervention in the cause of justice, and also gives it universal scope. But the plan to save people from injustice and oppression is the defining feature of every description Yahweh makes of himself" (Miranda, J., 1972, pp. 102).

⁴⁹ Pope Francis, *Angelus* in Cartagena 2017 (among other texts by the same Pope).

⁵⁰ Gauthier, P., 1969, pp. 190—201.

⁵¹ Lutte, G., 1971, p. 21.

⁵² On violence in *existentialist socialism*, see Marcuse, 1970, pp. 143—145; many theologians follow this line of thought; for example: Cámara, H., 1970, pp. 19—23; Fierro, A., 1972, pp. 223—227 (in his 1975 book, this author states that he follows Marcuse directly (p. 248)); Díez-Alegría, J. M^a, 1972, p. 80, etc.

⁵³ Derrida, J., 1967.

1968 Revolution⁵⁴. And it is in these authors that the ideas of such radical and pathological thinkers as, for example, Marcuse, Fromm or Derrida take root. In line with them, they will advocate *beliefs* regarding the advent of a civilisation built upon — watch out for this expression again! — the '*maternal principle*'⁵⁵ and, on that basis, they will abhor the figure of the father (and with it, God the Father). They will claim that God is female⁵⁶, defend the Malthusian idea of zero population growth⁵⁷, advocate the orgiastic use of sexuality⁵⁸ and, ultimately, lead people into paganism by exalting Pachamama and animals as deities.

In short, by applying the *purely negative dialectical principle* characteristic of the Frankfurt School⁵⁹, it will be argued that the best society is something like a madhouse. I am not exaggerating here either. It is the ideas of these 'intellectuals' that claim, for example, that mental illness is caused by the social order and, consequently, that madness is a matter of public opinion ('Freudo-Marxism')⁶⁰.

Obviously, Catholic theologians influenced by these ideas will use Marxist frameworks to undermine tradition within the Church. Two examples. *Marxist economic* arguments will be used to denounce the Catholic Church for its alleged lack of commitment to the 'poor'⁶¹. Furthermore, regarding the defence of *existentialist Marxism* by certain theologians, the publication of Paul VI's encyclical *Humanae Vitae* (1968) — which reacted against many of the ideas of

⁵⁴ Fierro, A., 1975, pp. 213 ff. (for an indication of the similarity between the two types of theology, see the same author's work, p. 236).

⁵⁵ Marcuse, H., 1968, p. 213.

⁵⁶ Stone, M., 1976.

⁵⁷ Meadows, D., 1972.

⁵⁸ Reich, for example, says of the individual's orgiastic potency: '(...) the capacity to surrender to the flow of biological energy without any inhibition, the capacity to fully discharge all sexual arousal' (Reich, W., 1957, p. 32).

⁵⁹ On how this principle is applied to *Liberation Theology*: Fierro, A., 1975, pp. 407 and 426.

⁶⁰ Osborn, 1971.

⁶¹ On the 'Kanapa test', see Dalnau, J., 1968, pp. 150 ff. The era was full of authors who, through their books, articles, lectures and classes, urged the Church to 'reform' itself. For example, Moltmann states: "*The Church has no right to a theology of revolution until it has itself been radically renewed*" (Moltmann, J., 1969, p. 68). And Helder Câmara: '*If the Church does not have the courage to tackle its own structures, it will not possess the moral strength to criticise society*' (Câmara, H., 1972, p. 21).

the 1968 Revolution — provoked furious opposition from these theologians (David Tracy, A. Auer, M. Vidal, J. M. Aubert, etc.).

All these *beliefs* and *ideas* about bringing about a new *paradise on earth* were theologically summarised in phrases such as: '(the) kingdom of God consisted in improving the world'⁶². All of these phrases, when examined closely, fitted like a glove with Marx's 11th thesis on Feuerbach: "Philosophers have only interpreted the world in various ways; the point is to change it".

In the year that the Second Vatican Council drew to a close (1965), the politicisation of the Church's magisterium was a reality. That year, Harvey Cox published *The Secular City*. This book echoes Feuerbach's thesis on Marx, which we have just quoted. We read: "For too long, theologians have merely interpreted the world. The time has come to transform it"⁶³. Naturally, the context of the so-called '*spirit of the Council*' was exploited to claim that when man speaks of God, he is addressing a political issue⁶⁴. At that time, Johann Baptist Metz, a disciple of Karl Rahner (I emphasise: a theologian of fundamental importance for understanding the Second Vatican Council), began to publish various works on *political theology*, arguing in favour of the Church's transformative political participation in society.

Concrete practical actions of a political nature were not long in coming. It was at this time that Christian-Marxist meetings became fashionable (in Lyon and Paris in 1964, and in Salzburg in 1965), when Marxists no longer encountered any obstacles to 'dialogue' with the Council⁶⁵, thus paving the way for the Medellín Conference of the Latin American episcopate to be held in 1968 (the year of the famous 'May' revolution) — a historic milestone marking the beginning of *Liberation Theology*.

Let us not forget that for a '*new world*', for a '*socialist paradise on earth*', Marxism called for a '*new man*'. Well then, if Marxism placed

⁶² Schillebeeckx, E., 1969, p. 15.

⁶³ Cox, H., 1968, pp. 572.

⁶⁴ Cox, H., 1968, pp. 271–278.

⁶⁵ In 1965, Roger Garaudy wrote the book *From Anathema to Dialogue*. The subtitle of this work is 'A Marxist Addresses the Council'. It is worth noting that Karl Rahner and his disciple Metz wrote introductory essays for later editions of this book.

its faith in the advent of a 'new man'⁶⁶ following the Marxist political formula to the letter, the argument became part of *Liberation Theology*⁶⁷. Let us recall that, according to Marxism, it is unjust social structures that make men evil⁶⁸ (and not original sin); thus, expressions from such as: 'in man we find God'⁶⁹ or that there is a 'humanism of God'⁷⁰, serve to assert that Christianity should be interpreted through a political-Marxist lens. We read: 'If a dogmatics constructed using categories and concepts from the pagan Aristotle has not caused offence thus far, there is no reason why a theology nourished by Marx's analyses should be alarming now'⁷¹.

B) The ideology of socialist 'violence'

We have previously referred to the way in which biblical studies of an exegetical and historical nature led some authors⁷² to refer to the political Christ, the Zealot Christ⁷³. We have also referred to how authors from the *Frankfurt School*, amongst others, used the

⁶⁶ Engels stated: 'As soon as there are no longer any social classes to oppress, as soon as class rule and the individual's legitimate struggle for existence amidst the anarchy that has hitherto reigned in production are abolished, together with the conflicts and excesses resulting from them, there is nothing left to repress, and so the special apparatus of repression, the State, becomes superfluous.' (The quotation from Engels is taken from Mises, L., 2019, p. 89). Kautsky also states that from socialist society "a new type of man will be born... a superman, a sublime man", and Trotsky continues: "Man will be much stronger, much more perceptive, much more refined. His body will be more harmonious, his movements more rhythmic, his voice more musical. The average human being will rise to the level of Aristotle, Goethe and Marx" (quotations taken from Mises, L., 2019, p. 170). On the 'new man' in existentialist Marxism: see Fromm, E., 1979 and 1980; Reich, W., 1957; Marcuse, H., 1968, etc.)

⁶⁷ Rahner, K., 1961, Vol. V, p. 157; Teilhard de Chardin, P., 1962; Chenu, M.D., 1966, p. 102.

⁶⁸ Gutiérrez, G., 1972, p. 269.

⁶⁹ Boris, L., 1971.

⁷⁰ Barth, K., 1957, p. 82.

⁷¹ Fierro, A., 1975, p. 102.

⁷² See the convergence of views on this point between Lévi-Strauss and Bultmann (Lévi-Strauss, C., 1964, pp. 368—377; Bultmann, R., 1960).

⁷³ Dutheil, M., 1971; Gullmann, O., 1971; Kautsky, K., 1974 ; etc. We read: 'In principle, the entire representational arsenal contained within the Christian tradition can serve, suitably adapted, for the theological understanding of political realities' (Fierro, A., 1975, p. 266).

figure of Christ to advance their proposals within the framework of *existential Marxism*⁷⁴. Ultimately, the result of all this convoluted discourse, replete with supposed rationales, was to justify the use of violence to change social structures⁷⁵. Statements such as the following are common among liberation theologians: ‘The believer is not a revolutionary simply because they are a Christian; rather, being a revolutionary is their way of being a Christian’⁷⁶.

One of the most damaging consequences of this entire discourse was the portrayal of Jesus of Nazareth as a strictly negative political symbol or myth. He is invoked when *economic Marxism* challenges socio-economic structures⁷⁷, as well as when so-called personal existential situations of oppression are called into question (e.g. the family based on heterosexual marriage, the welfare of offspring, the upbringing of children within the family, etc.). In other words, according to this mindset, Christ has brought nothing more to the world than a *dialectical-negative* message. In this sense, just as Marx praised crime⁷⁸, the priest we mentioned at the start of this section, Camilo Torres—captivated by Marxist beliefs and ideas—went on to take up arms. The means were irrelevant as long as the result—paradise on earth—was achievable. Girardi would say: ‘It is certainly terrible to have to kill for love, but it may be necessary’⁷⁹. At a congress in Amsterdam in 1970, the so-called ‘*Christians in solidarity*’ set aside the Lord’s Prayer to pray as follows (read on, as it is well worth it): ‘Grant, Lord, that we may not fear the struggle, including the struggle between us, for you have made life such that nothing new, no progress, can arise without a confrontation. Guide us towards the essential struggles’⁸⁰.

The existential consequence of these ideas was that ‘conversion’ ceased to be an act of God’s grace in man and became an act of ‘affiliation’ with a political party. Indeed, setting aside the role of

⁷⁴ Fromm, E., 1979.

⁷⁵ Cox, H., 1968, pp. 47–48; Cardonnel, J., 1968, p. 123; Moltmann, J., 1969, pp. 425–426; Gutiérrez, G., 1972, p. 203; Santa Ana, J., 1972, p. 118.

⁷⁶ Blanquart, P., 1970, p. 147.

⁷⁷ Biot, F., 1972, p. 176; Chenu, M.D., 1970, p. 162.

⁷⁸ Marx, C., 2018.

⁷⁹ Girardi, J., 1971, p. 71.

⁸⁰ Taken from Fierro, A., 1975, p. 276.

charity in personal development (which they despised and, moreover, continue to question and criticise even today, targeting all religious orders that peacefully care for the needy⁸¹), liberation theologians emphasised the supposed need for *social structures to change* so that people might also change. As we have said, liberation theologians replaced 'original sin' as an explanation for evil in man with the Rousseauian and Marxist theory of the 'noble savage'. Man was 'evil' because society made him that way⁸². We quote Girard once more: '(the revolutionary project) entails a radical critique of moralism, that is to say, of that hope of achieving the transformation of humanity through the mere moral conversion of individuals'⁸³. It follows from all this that the first act of the 'convert' is to 'join' the party that aims to bring about social transformation. Of course, one might wonder, could these theologians actually go so far as to say that being a member of a political party is more important than being baptised? And the answer, unfortunately, is yes. To do so, they certainly did not have to contend with the Church's magisterium. It should be recalled that Karl Rahner, for example, spoke of 'anonymous Christians'⁸⁴, and that it was at the Second Vatican Council that it was stated that salvation was possible without baptism⁸⁵.

C) The ideology of socialist 'law'

Liberation Theology denies the *existence* of *natural law* in human beings. The only law it declares to be universally valid, both for individual and social existence, is *pure negativity*. In this way, it eliminates any possibility that *natural law* might be connected to the *Law of God* and serve as a moral foundation for the individual. Moreover, in many respects, both the Law of God and natural law are regarded as arbitrary, alienating and oppressive. We have

⁸¹ Fierro, A., 1975, pp. 56 ff.

⁸² Gutiérrez, G., 1972, p. 269.

⁸³ Girardi, J., 1968, p. 517.

⁸⁴ Rahner, K., 1984, vol. VI.

⁸⁵ *Lumen Gentium*, 1964, 16.

already pointed out the absurdity to which this leads: no law will be necessary once the *Marxist paradise* has been established in the world.

To conclude, I would like to raise one point. In *Liberation Theology* (in line with Marxist atheism), the social process of secularisation is approached in various ways. Some theologians use this social phenomenon to emphasise the need to engage in politics from a religious perspective⁸⁶. Others describe the process of secularisation and political theology⁸⁷. Finally, there are those who, following in the footsteps of Karl Rahner, refer directly to a '*secularised Christianity*'⁸⁸. Regrettably, in recent times, we have come across views which even suggest that we Catholic Christians have nothing to say in the cultural and political spheres. I was stunned to discover that, indeed, Pope Francis had stated in *La Repubblica* in 2013: "*Proselytism is utter nonsense; it makes no sense*".

V.

PROSPERITY THEOLOGY

Protestantism also lies at the origins of the *Theology of Prosperity*. However, in this case, the reference to the Magisterium of the Catholic Church is certainly less significant than in the case of *Liberation Theology*. On this point, the Catholic Church's tradition regarding the *virtue of poverty* has, to this day, very effectively defended the Church's magisterium against the tenets of the *Prosperity Gospel*. In fact, any influence that Marxism has had on the Catholic Church's magisterium has been precisely through the door opened to it by the virtue of poverty.

The belief that '*faith alone*' was what saved mankind led Protestants to *believe* that good works were not a sign of being on the path to the '*Promised Land*'. It should be remembered that Protestants replaced the veneration of saints with the veneration of translators (Luther made the translation and purification of the biblical text the

⁸⁶ Galilea, S., 1974, pp. 313—327.

⁸⁷ Metz, J-B., 1969, p. 271.

⁸⁸ Chaigne, H., 1971.

cornerstone of the *belief* in '*faith alone*'). Well then, within this theological context, it became a source of anguish for Protestants to ascertain whether or not they were predestined for *paradise*. Neither Luther nor Calvin go so far as to say that wealth is a sign of salvation. It is important for us to clear up this widespread misconception because it is relevant to our topic. What both did affirm is that the fulfilment of social duties is part of the Protestant ethic. Moreover, they attached paramount importance to *obedience to civil political authority*⁸⁹. This led to the view that the practical image of Protestants was that of people who were very hard-working and compliant with public order (the State). This undoubtedly led the economist and sociologist Max Weber to state that, for Protestants, wealth was a sign of salvation⁹⁰. Now, what is interesting about this idea for us is that, once again, we see how it is within the Protestant milieu that politics becomes the primary focus in relation to the Bible. From this, we can understand something we have referred to previously. By ruling out the possibility of charity in human beings, it was Prot-

⁸⁹ We read that Luther wrote: 'Someone must arrest, accuse, strangle and kill the wicked, and protect, excuse, defend and save the good (...). Therefore, if they (the princes) do so with the intention not of seeking their own interest but of helping to use power and the law to subdue the wicked, they run no danger and may exercise them just as anyone else carries out their office, deriving their livelihood from it' (Luther, M., *On Secular Authority: To What Extent Obedience is Due* (1523), 2016, p. 8). Commenting on Psalm 101, Luther goes so far as to extol the goodness of the prince above that of his subjects with these words: "God has established and ordained temporal power to be subject to reason, for it is not to govern the salvation of souls and eternal salvation, but rather bodily and temporal goods, just as God grants them. God grants them (the princes) intelligence, knowledge, languages and eloquence, so that their beloved Christians may be regarded as a multitude of children, fools or beggars". Thus, in Luther we find the embryo of all collectivist political ideas which have held that someone—in Luther's case, the prince—can organise society rationally and use unlimited force to that end. When, between 1524 and 1526, the Peasants' War spread across Germany, Luther had no qualms about sternly admonishing the peasants for rebelling against authority: 'How can you reconcile yourselves with these words (of the Gospel) and with divine right if you claim to act in accordance with divine right and, yet take up the sword against the authority instituted by God?' (Luther, M., '*Exhortation to Peace in Response to the Twelve Articles of the Swabian Peasants*' (1525), in 2016, p. 11). Calvin's words in Book IV of *The Institutes of the Christian Religion* (1559) are even more severe. He goes so far as to say that tyrants exist because they are a scourge sent by God against the people for their sins (Book IV, 20, 24—26). This is the kind of mindset from which Hobbes's political thought arises.

⁹⁰ Weber, M., 2000.

estant authors who replaced the *rational virtue ethics* (traditional in the Catholic Church and the School of Salamanca) with Kantian rational ethics — as we have seen — or, in the Anglo-Saxon context, with sentimental ethics⁹¹. And, of course, for those who have eyes only to see the evil in human beings, it is hardly surprising that they made ‘*selfishness*’ the cornerstone of the ‘*new science*’⁹². This new ‘*positive*’ practical-social discipline (along with others like it) — and its corresponding Nobel Prize — led to the imposition, in universities across the world, of the criterion, no less, that university education for young economists and jurists of calibre is immoral. ‘Modern’ economics is *Protestant Scholasticism* from start to finish. And, of course, it has its own theology.

Through ‘*selfishness*’, the Protestants treated all men as equal when it came to understanding their practical actions; yet, let us note, in doing so, *they treated them as unequal by focusing on the worst aspects of their nature*. Whilst the School of Salamanca argued that *friendship* enabled the highly capable individual to lead a sociable life in harmony with their fellow human beings⁹³, Protestant economists portrayed the prosperous man as someone whose relationship with others was based on a *self-serving contract*. It is worth noting that when Luther criticised indulgences, he used the argument, amongst others, that forgiveness precludes repentance. In other words, at the heart of Protestantism lies the idea that one must suffer the consequences of one’s actions *without any possibility of fairness*. From this, interpretations arose in which good faith, morality and good manners had no bearing on the obligation to fulfil what had been agreed⁹⁴. In other words, for Protestant culture, being ‘*self-*

⁹¹ Smith, A., 2017 and 2018.

⁹² Bentham, J., 1987, Ch. XII, 10; Smith, A., 2018.

⁹³ Among many others: Fonseca, C., 1592.

⁹⁴ See §241 BGB 1900. Let us consider some of the most significant amendments introduced to the German Civil Code (BGB) in 2002. The new §275(1) BGB excludes the right to demand performance where this is impossible (that is to say, previously, even if the debtor was unable to fulfil the obligation, they could still be required to do so). The debtor was also given the option to avoid performance of the obligation where it is personal in nature and the debtor faces certain impediments or where it would require a disproportionate investment on their part in relation to the creditor’s claim (in this regard, good faith is taken into account) (§275(2) and (3) BGB). In line with this approach of relaxing the strict enforcement of contractual obligations, the reform also

ish' became a legitimate way of prospering in life (good deeds did not matter), often at the expense of others. This mindset led to truly abominable consequences in Protestant theology which, incidentally, can still be observed today. Indeed, by *believing* that '*selfishness*' is the defining feature of human behaviour — and an irreversible one at that — they legitimise the *foundations of inequality in human dignity*. I am not referring to the acknowledgement of the real inequalities that exist amongst people, which are, moreover, legitimate and necessary. What these theologians are referring to is the fact that there are people '*chosen*' by God for salvation and, therefore, of *a higher and more dignified status than the rest*. In this sense, it is no coincidence that it is within Protestant circles that the very *goodness of slavery* is theologically justified. It was the Calvinists, and with them the Puritans and Congregationalists (in contrast to the teaching of the Catholic Church⁹⁵ and the authors of the School of Salamanca), who viewed the situation of slavery as a *state of nature* willed by God for some human beings in relation to others and, consequently, that slaves should be treated as contractual objects⁹⁶.

The biblical text most frequently used to justify the domination of some human beings over others is *Genesis* 9:20–25. In it, Ham, son of Noah, is cursed by his father for failing to cover his nakedness. Consequently, all his descendants were condemned to servitude. Drawing on the analogy of this text, many Protestant theologians would regard slavery as natural. Hegel (an atheist Protestant theologian), whilst not citing this text, and whilst idolising the State and defending the superiority of the German people in his *Lectures on the Philosophy of History*, would say of the Black race: 'Anyone who wishes to see appalling manifestations of human nature can find them in Africa'⁹⁷.

"*Scientism*" in the sifting and interpretation of biblical texts, the glorification of "*selfishness*" in human beings, "*contractualism*" as an

allowed the debtor to avoid performance where they were unaware of the impediment to doing so (§311a(2) BGB), etc.

⁹⁵ See, amongst others, the condemnations of slavery by Paul III, Urban VIII, Gregory XVI, etc.

⁹⁶ Placucci, A., 1990, p. 114.

⁹⁷ Hegel, G.W.F., 2003, p. 274.

explanation for social relations, “*inequality in the regard for human dignity*” and racism are the guiding principles underpinning what is known as *Prosperity Theology*.

At present, Pentecostal and Neo-Pentecostal movements play a hugely significant role in spreading all these beliefs in countries such as Korea and throughout the Americas⁹⁸. The origin of all these movements lies in the very particular mindset that Protestants in the United States have come to adopt. We shall therefore focus on this country. We shall use the same *ideograms* that we employed when describing *Liberation Theology*.

A) The ‘paradise’ concept

Like liberation theologians, prosperity theologians and politicians have used the Exodus to justify certain political actions. However, unlike Marxism — which made ‘*social justice*’ the principle for achieving *paradise* on earth — *prosperity theologians* emphasise the importance of ‘*individual freedom*’ and ‘*self-interest*’ in attaining *paradise* in this world⁹⁹. These beliefs are enshrined

⁹⁸ “Pentecostalism has been one of the most significant phenomena in contemporary history, and it is not without reason that it is currently regarded as the most active and dynamic religious movement of the 20th century. Over the course of the century, it has grown to encompass 300 million followers worldwide; consequently, to consider the reconfiguration of Christianity and religious transformations at the start of the 21st century without taking the Pentecostal and Neo-Pentecostal movements into account seems absurd. As for Neo-Pentecostalism, it is a defining feature of this historical period; on the one hand, it signifies integration into neoliberal modernity, and on the other, it has been a movement capable of re-enchanting the world, saturating the lives of vast sections of the population with religion, and reviving a traditional religious imagination” (Amestoy, N., 2009, pp. 55—56).

⁹⁹ Solano, A., 2005, p. 6. We also read: “Within the perspective of conservative North American neo-Protestantism, Prosperity Theology favours the individual — rather than the community — as the primary sphere of action, holding up poverty as an indicator of non-submission to God, which leads to the impossibility of salvation (...) Prosperity Theology aims to transform the individual so that this transformation may, in the long run, transform society. The individual’s social advancement is presented as the only possible vehicle for societal transformation, by legitimising, through divine will, the desired evolution. This explains its emphasis on moulding the individual within the neo-community formed by the Church” (García, 2014, p. 5).

in the *United States Declaration of Independence* (1776), which establishes as inalienable (individual) rights: '*life, liberty and the pursuit of happiness*'. Now, this set of rights reveals something very distinctive about American Protestantism. We have seen that authors such as Luther and Calvin advocated submission to civil authority. Yet this idea was set aside when the *Pilgrim Fathers* (Protestants) left Europe from England. They did so — amongst other reasons — because they considered both the English Crown and the Church of England to be corrupt. In this context, they explained their journey to the *New World* using the analogy of the Exodus¹⁰⁰. In the *political archetype* of the Exodus discussed above, Great Britain took the place of the Pharaoh and the *Pilgrims* that of the Chosen People.

Understanding this is very important for grasping the differences, not only between *European* and *American* Protestantism, but also between *French* and *American political liberalism*¹⁰¹. So, what we find in the United States is a population that, by its very nature, is *suspicious of any form of political power*. And, of course, as a result, it expects little or nothing from the state and attaches great importance to the individual. The image we all might have of the sheriff, with a Bible in one hand and a revolver in the other, facing down any adversity, illustrates very well what I am trying to say.

The arrival of the *Pilgrims* in the United States, using the analogy of the Exodus, will result in these people — just as Joshua did with the land of Canaan — seeing themselves as entitled to usurp and conquer the lands inhabited by the indigenous peoples. Thus, the text of Exodus was accompanied hermeneutically by other biblical texts such as: '*God is a warrior*' (*Ex* 15:3) or the passage from Jeremiah: '*Cursed be he who keeps his sword from blood*' (*Jer* 48:10). Naturally, texts from Genesis, and Leviticus (*Gen* 9; *Lev* 25:44—46), in addition to the one we have seen from Genesis, were also used to justify slavery.

¹⁰⁰ Aguirre, R., 2025, p. 61.

¹⁰¹ Ronald Reagan, for example, at the 1984 Prayer Breakfast, drew a clear distinction between the secular liberalism of the French Revolution and that of the United States. Specifically, using the image of St Augustine, he said: "I think George Washington knew that the city of men cannot survive without the city of God..."

We see the same line of argument in the American Civil War. Both sides appealed to the Bible to justify their cause.

This way of justifying political actions persists to this day. For example, in 2016, Jerry Falwell Jr. compared Donald Trump to King David (recall this king's adultery with Bathsheba and how it led to the death of her husband, Uriah)¹⁰², so that the more conservative electorate would have no qualms about voting for a presidential candidate with a questionable moral reputation.

Ultimately, it is within this historical and cultural context that expressions such as '*man is free*', '*freedom of conscience*', '*freedom of worship*', '*the right to bear arms*', '*free market*'¹⁰³, etc., resonate. And, of course, all of these will be used by *Protestant prosperity theologians* to reach conclusions just as surprising as those reached by *liberation theologians*, but, mind you, in the opposite sense; namely, that God has taken the side of the rich and against the poor¹⁰⁴.

All these *beliefs* and *ideas* about a *liberal paradise* on earth can be summarised theologically in a single phrase: '*the Kingdom of God is a personal right of a select few*'¹⁰⁵. Naturally, the '*Kingdom of God*' in this world concerns all the '*chosen ones*' and, of course, foremost amongst them are the pastors of those churches. Thus, it is a dogma of Pentecostal churches that God demands that tithes be paid to him. We find ourselves once again in the logic of '*selfishness*' in its '*contractual*' dimension: *God gives, if you give to him*¹⁰⁶.

¹⁰² Adams, S-L., 2004.

¹⁰³ "(...) capitalism has generated its own theological dogma—not merely an earthly one, nor a metaphor for concepts that indirectly allude to heaven—but rather it presents itself as a metaphysical truth: the metaphysics of the capitalist market, and it is into this that a spirituality seeks to be inserted" (Tancara, 2020, p. 164).

¹⁰⁴ Spadaro, A., and Figueroa, M., 2018, pp. 115—118. Prosperity theology entails a whole self-help theory for achieving success. In this regard, the importance of the book by Vincent Peale, N., 1952, is fundamental.

¹⁰⁵ We read that Harold Hill says: "The king's children are entitled to special treatment because they enjoy a special, living, first-hand relationship with their heavenly Father, who has made all things and remains their Lord" (Hill, H., 1976, p. 34).

¹⁰⁶ A text by Edin Macedo (Bishop of the Universal Church of the Kingdom of God) states: "Tithes and offerings are as sacred as the Word of God itself. Tithes and offerings signify the servant's loyalty and love for the Lord. Tithes and offerings cannot be separated from the redemptive work of the Lord Jesus; they signify, in truth, the blood of the saved for those who need salvation" (quoted by Aguirre, R., 2025, p. 212).

When discussing *Liberation Theology*, we have seen that those theologians called for a 'new man' for their 'paradise' on earth. Well, in *Prosperity Theology*, it is exactly the same. But in this case, the 'superman' will not emerge after social transformation. He will be a 'superman' by upholding a certain ethical profile and having established himself above other men¹⁰⁷. In fact, ethics enters the realm of politics to divide people — not as Kant intended, as we have seen. Thus, for example, we encounter an ethic far removed from any form of charity, in which homosexuals or, in many cases, women are treated badly. It is not uncommon to find authors and pastors with large followings, such as Ralph Drollinger — founder of Capitol Ministries (which promotes the training of Christians to take up political office) — who, whilst being anti-Catholic and liberal, are opposed to recognising women's labour rights and fiercely criticise homosexuality. It is also true that they oppose the silent massacre of our century: abortion. Ultimately, it is this sort of 'superman' who will transform society¹⁰⁸. It is this 'superman' whom they call a 'saint'¹⁰⁹.

B) An ideology of 'violence' in the name of prosperity

Prosperity theology selects passages from the Old and New Testaments to make the Bible speak in political terms. And, like *liberation theology*, it selects certain passages to justify the use of violence (including: *Matt* 10:29—30; *Rom* 8:28; *James* 4:2, etc.). In this case, it does not merely justify the violence one might use to defend one's 'selfish' interests. It goes further. It declares that the situation of suffering in which many people may live is just. God wills it to be so for them. This leads to the belief that participating in *liberal capitalist ideology* constitutes, in itself, a state of salvation for the individual. And so, in a similar way to what we have seen Marxists of

¹⁰⁷ Sparado, A., Figueroa, M., 2018.

¹⁰⁸ García, J., Patrick, M., 2014, p. 5.

¹⁰⁹ "Being prosperous is no longer a matter that cannot form part of being evangelical (...) humanity's projects for social progress are not open to question. Indeed, it is a way—at least one among many—of demonstrating holiness" (Seman, P., 2005, p. 77).

Liberation Theology believe when they say that ‘conversion’ is membership of the party, many authors of *Prosperity Theology* similarly suggest that political activism within the groups they form replaces grace in a person’s ‘conversion’¹¹⁰.

C) The concept of the ‘law’ of prosperity

Prosperity theologians maintain that there is a *natural law*—that of ‘selfishness’—and a *divine Law* which they derive from their particular interpretation of the Bible. Thus, within their system of *beliefs* and *ideas*, any *positive law* emanating from civil or religious authority (the Catholic Church) is viewed with suspicion. To put it another way, the best law is one that does not exist and leaves people free to do as they please (‘selfishness’). In line with this thinking, it is believed (and in this they are not entirely wrong) that it is regulation and political power which, on many occasions, thwart the individual’s chances of achieving happiness in this world. If, as we have seen, socialism believed that with *the ‘new man’* no laws would be necessary, prosperity theologians consider that it is precisely the absence of law that will lead *the ‘new man’* to a sort of what Hayek called a ‘*spontaneous order*’, or, theologically speaking, ‘*paradise*’.

VI.

CONCLUSIONS

- I. We have seen that both Theology and Politics address something fundamental in human beings: beliefs, hope

¹¹⁰ “Prosperity Theology thus operates as a theological mechanism through which every Homo Neoliberalis can see their longings for stability, health and economic abundance sanctified and spiritualised in a covenant with a God who does not call for structural changes to current socio-economic conditions and who is grounded in an optimistic view of Homo Neoliberalis’s capacity to receive God’s blessings. These blessings, insofar as they entail health and economic abundance, will be fundamental to Homo Neoliberalis’s path of constant self-improvement and social advancement” (Aguirre, 2021, p. 8).

and will. In this way, we have been able to see the reason why: a) these two disciplines are related; b) these two disciplines may come into conflict; c) the possibility of *political theology* exists.

- II. It has also been demonstrated that this situation is possible because human beings are the only beings on earth who develop within a community, looking towards the future. And, to this end, they are endowed with faculties such as faith, hope and the will.
- III. It is this unique aspect of human beings (existing for the future) that makes them so vulnerable to error and deception. These are fundamental considerations when analysing *beliefs* and, consequently, ‘worldviews’ and religious and political ‘*ideological*’ conflicts.
- IV. More specifically, the political interpretations of the Bible from the *perspectives of Liberation Theology* and *Prosperity Theology* have been outlined. Summary outline:

<i>Dialectics: Political power</i>	<i>see Freedom</i>	<i>Ideographs</i>
Collective	Personal	<i>Paradise</i>
Yes	Yes	<i>Violence</i>
Yes	No	<i>Law</i>
Liberation theology	Prosperity theology	

V.
TAKING A STANCE

From a traditional Catholic perspective, *Liberation Theology* and *Prosperity Theology* must be traced back to a very ancient phenomenon that emerged from the very inception of the Catholic Church: *Gnosticism*. In its various forms, *Gnosticism*—particularly from the 4th century onwards—converges on the idea that God’s message is known perfectly by *certain special individuals*. In the case of our own century, these men are the ‘*social scientists*’. From those earliest

times, theology has always been tempted to fall under the spell of various Gnostic doctrines (Arianism, Manichaeism, pantheism, evolutionism, etc.) and, in the face of these, the Church Fathers never ceased to attack Gnostic beliefs and ideas and to defend the Church against such influences. In the 2nd century, St Irenaeus of Lyon) stands out. As for the theological ideologies we have discussed throughout this article, we have cited various documents of the Catholic Church in which they are rejected. But, returning to the Gnostic roots of these ideologies, in his address to the academics of the Catholic University of Lyon on 7 October 1986, Saint John Paul II said the best possible words to conclude an article such as this: 'The gnosis that Irenaeus combated appears to us today as a series of completely outdated speculations. Undoubtedly, they responded to a deep desire to understand the meaning of hidden things. But they were dominated by the temptation to attain this understanding solely through reason and the power of the imagination, and to limit this esoteric knowledge to a circle of initiates (...) It was a pseudo-Christianity, the dangers of which Irenaeus clearly foresaw. / In other respects, who would dare to claim that the Gnostic temptation is no longer an obstacle for the Church? Hegel's attempt to interpret Christianity was precisely a way of stripping the Christian faith of its substance (...) Even today, there is a widespread temptation amongst some Christians to interpret revelation and the formulations of the Christian Creed in a highly partial manner, allowing themselves to read the Bible according to presuppositions alien to the faith, to subject the faith to a system constructed outside it, and to retain familiar formulations from the Bible or Christian doctrine to underpin these heterogeneous currents of thought.'

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PRAXEOLOGICAL THEORY OF LEGITIMACY

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Abstract: This article proposes a praxeological reinterpretation of political legitimacy, moving beyond the static conceptions of legal positivism and classical contractualism. Based on the axiom of human action and the inalienability of the ontological will, legitimacy is reconceptualised as ‘dynamic moral capital’: an intangible asset yielded by the individual—the bare owner—to the State on a temporary and conditional basis, operating under the legal concept of usufruct. The analysis demonstrates that political power operates through the issuance of a “narrative debt”, the coercive and centralised realisation of which is technically insolvent given the theoretical impossibility of economic calculation in the public sector. This chronic insolvency leads to inescapable cycles of institutional entropy, where the collapse of the prevailing order is precipitated by the convergence of objective windows of crisis with the actions of political entrepreneurs, who act as coordinating agents offering alternatives perceived as solvent. Finally, in the face of the State’s hermeneutic monopoly and the legislative usurpation of authentic law, a meta-legal framework based on polycentric governance is proposed. This order of free political usufruct, anchored in private property, contractual responsibility and the right of exit or secession, aligns institutional incentives with spontaneous social coordination.

Keywords: Legitimacy, Praxeology, Political Usufruct, Narrative Debt, Polycentric Order.

JEL codes: B53, K10, P16, D72.

Introduction

The study of political obedience requires us to move beyond static conceptions—frequently taken as a given by contemporary

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legal positivism¹ —and to focus instead on the subjective foundations of power. As Hume wrote, given that physical force inevitably resides with the governed, rulers have no other basis for their authority than opinion, this being the sole foundation upon which any government is based (Hume cited in Hoppe, 2001, p. 17). This pre-eminence of subjectivity is complemented by Weber, who strips it of its purely legal trappings to define it as a sociological phenomenon rooted in a system of shared beliefs (Weber, 1922, p. 102).

From this classical perspective, no structure aimed at domination can endure by relying exclusively on force or purely material factors; rather, it must constantly foster a sustained belief in its own legitimacy (Weber, 1922, pp. 296–297). However, by recognising that the fundamental basis of the state is opinion and belief, it becomes evident that political power does not operate through mechanical coercion over people's wills, but rather depends on constant validation that is subject to fluctuations over time. It is precisely on this epistemological basis that the present study proposes to reinterpret legitimacy, moving beyond mere sociological description to approach it as a dynamic form of moral capital². Through this approach, based on a praxeological analysis of social phenomena, one can understand the true nature of spontaneous political coordination³ and the importance of individual subjective

¹ The methodological framework of this conception requires that the analysis of law be isolated from any subjective or social basis. As Hans Kelsen sets out in his most comprehensive formulation, the aim of 'pure theory' is to attain knowledge oriented entirely towards positive law, freeing legal science from all elements foreign to it, including psychology, sociology and political theory (Kelsen, 1934, p. 15). However, by treating legal science as an autonomous domain within the social sciences, this methodological purification excludes from the analysis the indispensable (praxeological) information required to understand (*Verstehen*) the true nature of its object of study: the human being who acts teleologically under conditions of ineradicable uncertainty (Mises, 1949, pp. 60, 128).

² As Mises rightly explains, 'power, therefore, is not a material and tangible thing, but a moral and spiritual phenomenon' (Mises, 1949, p. 226), and so obedience and submission are essentially immaterial, moral and spiritual in nature.

³ The political order, in its deepest sense, rests on a foundation of voluntary cooperation. As praxeological analysis points out, the state apparatus is always made up of a minority; it is therefore physically impossible for it to keep a majority subjugated if the latter decides to withdraw its consent en masse (Hoppe, 2001, p. 289).

value judgements in the current legal and political order (Mises, 1949, p. 19).

1. Praxeological foundations of obedience

The only epistemologically secure starting point for the analysis of social and institutional phenomena is the axiom of human action. In its essential sense, every individual acts inevitably driven by the desire to replace a less satisfactory state of affairs with one that they subjectively value as more satisfactory (Mises, 1949, p. 18). This transition from a state of discomfort to a better situation requires, as a prerequisite, a prior process of valuation. As established by the law of marginal utility, the agent ranks their ends in an ordinal manner and projects that subjective value onto the scarce means they consider suitable for achieving them, thereby determining their utility and allocating each unit to the attainment of the end they deem most pressing or beneficial (Huerta de Soto, 1992, pp. 43–44, 50).

It is now necessary to determine the nature of this evaluative act. This takes place in a dimension that is physically inaccessible to the external observer: the innermost recesses of the individual's mind. As value judgement is an eminently subjective phenomenon that occurs within the privacy of one's conscience, it is evident that no physical imposition or external coercive apparatus has the capacity to determine or alter the logical structure of the action (Huerta de Soto, 2011, p. xliii).

In other words, although political power seeks a monopoly on force and may drastically restrict the available alternatives, it faces the technical impossibility of mechanically imposing its will on others. It follows from this that, even under the most extreme conditions of coercion—such as those where the individual faces the imminent and real threat of death, cruel punishment or absolute poverty—the person continues to make choices. As Hobbes rightly recognised, in such circumstances human beings naturally choose the 'lesser evil', preferring submission to the certain danger of death that resistance entails (Hobbes, 1651, p. 115). However, he failed to note that changes in circumstances may eventually alter

the subjective perception of that risk, thereby changing the calculation of the cost of resisting the existing order. Thus, those who obey the established authority also make a silent calculation in which they judge their behaviour to be preferable to the alternative of disobedience. Adherence, meanwhile, turns out to be an inescapable sign of what, in economic and praxeological analysis, we know as demonstrated preference, since, in acting, the individual invariably seeks to replace one situation with a more satisfactory one, thereby demonstrating their preference (Hoppe, 2001, p. 1). Obedience, therefore, is not an inert state devoid of agency, but the result of a constant choice. It follows, then, that ontological freedom and the capacity for choice are inalienable conditions of human nature, since not even the subjugated individual loses their status as a being who uses reason to decide between available alternatives (Mises, 1949, p. 235).

1.1. *The political bond as a right of usufruct*

Having thus defined obedience as the result of a constant choice, it is imperative to redefine the nature of the legal bond. Classical political theory has historically operated under the fiction of the social contract, assuming an irrevocable transfer of rights whereby the individual relinquishes the right to govern themselves and irrevocably cedes their sovereignty to the State (Hobbes, 1651, p. 141; Hoppe, 2001, pp. 227–228). However, praxeological analysis reveals that such an alienation is ontologically impossible. In order to prefer one state of affairs over another—an indispensable prerequisite for all action—human beings must be the inescapable masters of their own bodies and consciousness. As illustrated by Rothbard's contract theory, the individual retains inalienable control over his own will, from which it follows that it is not factually possible to definitively transfer or relinquish that condition inherent in human nature (Rothbard, 1982, p. 193).

This praxeological observation therefore requires us to abandon the static notion of legitimacy as a title of full ownership that must be presumed to belong to the ruler. To reconceptualise it

properly, it must be understood as a dynamic property relationship, illustrated by the legal concept of usufruct⁴.

By applying this legal rigour to the analysis of political theory, the governed emerge as the sole owners of the capital of social validation. Sovereignty, therefore, does not reside in an abstract and impersonal entity elevated above individuals, but remains anchored in the private ownership of each subject's consciousness, who retains at all times inalienable dominion over their own value judgements (Rothbard, 1982, p. 62). It follows logically from the above that the ruler is relegated to the position of a mere precarious holder⁵. He receives political authority exclusively as a right of use and enjoyment, conditional upon the criteria of those who grant him that usufruct. This suggests that the State operates on borrowed capital which it must constantly renew (Mises, 1949, p. 226).

Understanding legitimacy as usufruct allows us to definitively dismiss the premise that political power is irreversible. Just as in civil law the usufructuary must not abuse the right by damaging the condition of the property granted in usufruct, so too in the institutional mechanism an analogous phenomenon occurs with regard to the management of obedience. Since all human action is teleological and seeks to replace a less satisfactory state of affairs with a more satisfactory one, the granting of obedience is eminently onerous insofar as the individual always pursues a personal benefit through it⁶. Should the hypothetical situation arise in which the actor's expectations regarding the narrative put forward by the ruler clash with an unsatisfactory material reality, this

⁴ As established by the famous classical Roman jurisprudence through the jurist Paulus, usufruct is the right to use and enjoy another's property whilst preserving the substance of that property (Digest, 7.1.1; Godofredo, 1583). The political bond is equated with the legal status of usufruct, since the ruler *de facto* uses and enjoys, or enriches himself from, the fruits of the obedience bestowed by individuals. However, the State, or the ruler, cannot affect the substance of the governed individual's value judgement, which is inalienable, variable and strictly subject to subjective criteria.

⁵ The holder of a usufruct is subject to the owner's discretion; in this sense, the absolute owner of legitimacy may withdraw their *de facto* obedience because they are, in fact, the owner of it.

⁶ They seek a subjectively valued benefit, which need not be strictly material, although it may well be so.

results in a direct impact upon and damage to the very object of political usufruct.

In this scenario, it is logical and to be expected that the individual should exercise the right of revocation that they naturally possess over their own will. Viewed in this light, civil disobedience or the collapse of a regime do not constitute acts of aggression against the order itself, but rather genuine acts of reclamation aimed at recovering legitimate property. Strictly speaking, this is a case of the bare owner reclaiming control over their capital of legitimacy from a political administrator who has become insolvent and has proved incapable of managing the usufruct without destroying its substance (Rothbard, 1982, p. 90).

2. Narrative debt and obedience

Whilst Max Weber's classical sociological theory classifies domination according to the beliefs of the dominated regarding its legitimacy – whether of a legal-rational, traditional or charismatic nature (Weber, 1922, pp. 298–299) – this categorisation proves insufficient from a praxeological perspective. Far from being a conditioned reflex or passive acceptance, obedience is always the result of a calculation of expediency on the part of the individual. As Mises points out, even in the face of the threat of coercion, the individual weighs up the alternatives and chooses submission solely because they consider the costs of disobedience to outweigh those of complying with the command (Mises, 1949, p. 235). Strictly speaking, all obedience stems from a subjective value judgement aimed at replacing a less satisfactory state of affairs with a more convenient one (Mises, 1949, p. 117).

On this basis, it is imperative to move beyond the Weberian classification and distinguish between forms of obedience according to how the institutional structure either permits or suppresses the expression of that value judgement. It is therefore proposed to make an analytical distinction between 'organic' obedience and 'mechanical' obedience.

Organic obedience is that which arises within the framework of a spontaneous order, where people abide by certain norms of

conduct because they perceive a direct or indirect benefit in doing so. In this scenario, the individual retains the autonomy to express their value judgement by adapting to the particular circumstances of their environment and cooperating voluntarily to satisfy their own ends (Hayek, 1973, p. 68).

By contrast, mechanical obedience⁷ manifests itself in processes where the centralisation of power and widespread coercion stifle free action. In this case, the imposition of coercive mandates prevents value judgements from being expressed in the specific circumstances of their context, forcing the individual to fulfil the ruler's ends rather than their own (Huerta de Soto, 1992, p. 94). The actor obeys out of a sheer need to avoid punishment, which destroys spontaneous social coordination and nullifies the individual's ability to freely utilise their practical knowledge (Hayek, 1973, p. 74).

With this distinction clarified, it is imperative to re-examine the nature of the political bond. In economically symbolic terms, this bond operates as an exchange of intangible goods that generates direct effects in the material world. The ruler makes a promise regarding an ethereal and intangible good, yet one that is socially

⁷ It is imperative to make a fundamental praxeological clarification regarding the concept of 'mechanical obedience'. This analytical category does not, under any circumstances, suggest the suspension of the axiom of action or the nullification of the marginal utility calculation on the part of the actor. As Mises (1949, p. 235) states, even when subjugated by a hegemonic system, the individual does not lose their human condition—that is, their inalienable capacity to appeal to reason in order to decide between various alternatives. What defines mechanical obedience is not the absence of calculation, but the artificial alteration of the costs of action by the coercive apparatus. Through the threat or use of force, the state inflates the cost of disobedience in a given sphere to a prohibitive threshold. Faced with the inescapable dilemma of enduring the harsh consequences of disobedience or those of submission, the individual rationally opts for the latter. Consequently, the individual complies with the mandate not because they organically endorse the regime's narrative debt, but because at that particular moment they estimate that the cost of defiant action (such as physical punishment or the loss of life) far exceeds the cost of temporary submission. It is, therefore, a utility calculation operating under a regime of hijacked alternatives. This structure explains why mechanical obedience tends to fracture suddenly in the face of an objective window of opportunity or a crisis. As the State's capacity for coercion weakens, the cost of rebellion plummets, allowing the individual's demonstrated preference and true assessment to come to the fore, thereby revoking the benefit derived from their submission.

valued according to his own judgement, be it justice, peace, war, democracy, dictatorship or any other end that individuals are willing to 'purchase' with their submission. Praxeologically, the legitimising principle functions as a promise to pay. As it is not subject to a defined timeframe or an objective condition of fulfilment, the willingness to obey remains at all times the inalienable property of the individual and is strictly subject to their discretion. Consequently, legitimacy constitutes a dynamic situation that is highly dependent on the particular circumstances of time and place.

In this political market, the ruler issues what might be termed a 'narrative debt'. As these are promises concerning ethereal goods, this debt is neither objective nor materially payable. Unlike a commercial transaction, in public administration there is no market price by which to measure the achievements made; consequently, the ruler's success or failure cannot be determined in terms of money or objective calculation (Mises, 1944, pp. 62–63). The extent to which this debt is repaid is subject exclusively to the ongoing evaluation and scrutiny of the governed.

However, in its constant quest for obedience, the State faces an insurmountable epistemological problem. To the extent that the ruler increases the use of coercion to sustain his domination, he destroys the information signals necessary to distinguish purely mechanical obedience from organic obedience. Just as with the impossibility of economic calculation in the market—where the systematic use of aggression against the free exercise of entrepreneurial activity destroys the practical information needed to coordinate the production process (Huerta de Soto, 1992, p. 99) and prevents subjective valuations from being reflected in prices (Huerta de Soto, 2011, p. xxxviii), so too in the political sphere does coercion prevent value judgements from being freely expressed.

To understand the dynamics of this political market, it is essential to introduce the figure of the coordinating agent or political entrepreneur. Far removed from any romantic or personalist conception, praxeology defines this actor by their strictly economic function. This is the individual who, endowed with entrepreneurial insight, perceives an opportunity for profit by detecting a profound mismatch between the narrative debt that individuals truly demand and that which they are compelled to acquire under the

existing order out of sheer fear of coercion (Huerta de Soto, 1992, pp. 74–75). This coordinating agent fulfils their role by translating these latent demands for ethereal yet socially valued goods into concrete backing through the issuance of a new institutional promise, which will be subject to the individual's judgement of utility.

The viability of this new issue depends strictly on the nature of its backing, which necessitates an analytical distinction between solvent and insolvent narrative debt. In this regard, any narrative debt that relies on public resources to achieve its purpose must be declared, *a priori*, to be insolvent. This inescapable technical insolvency stems from two fundamental reasons. Firstly, in the absence of private property and market prices, the central authority is unable to carry out any rational economic calculation. Without the guidance of these spontaneous signals, the allocation of resources does not respond to economic criteria, but to purely arbitrary political decisions (Huerta de Soto, 1992, p. 103). Secondly, the incentive structure of the public apparatus guarantees the failure of the promise, since the state bureaucracy lacks any real incentive to definitively solve the problems that constitute, precisely, the justification for its power and its budget. The state is forced to keep the problem alive in order to perpetuate the demand for its own intervention (Mises, 1944, p. 64).

By contrast, a narrative debt issued on an organic basis—that is, not founded on coercion—has the technical capacity to become solvent if market conditions are met. When the promise of institutional goods, such as high-quality justice, is underpinned by free competition between jurisdictions, the issuer's incentives align with consumer satisfaction. In a competitive environment, the coordinating agent can only maintain their position if they effectively deliver the promised quality, since competition acts as an incorruptible process of discovery and social coordination (Hayek, 1973, p. 436). Under this structure, success does not depend on the capture of the state apparatus, but on the productive capacity to offer a real solution that justifies the debt incurred and prevents bankruptcy in the face of more efficient alternatives (Benson, 1990, chap. 9).

To address the phenomenon of political change from a praxeological perspective, it is essential to identify different ordinal states

of legitimacy that reflect the individual's utility calculation. Firstly, active legitimacy is observed when a person voluntarily submits themselves with the full expectation of receiving some kind of subjective benefit in return for obedience. At this stage, an narrative debt that is insolvent may enjoy active legitimacy if it manages to convince enough individuals, regardless of how long it can sustain that legitimacy through purely public means.

Secondly, passive legitimacy operates when the marginal utility calculation of obedience is just sufficient to comply with the mandate in order to avoid punishment or to avert uncertainty. Faced with the dilemma of enduring the consequences of disobedience or those of submission, the actor rationally opts for the latter (Mises, 1949, p. 235). In this scenario, the individual neither supports nor believes in the nature of the narrative backing offered, but still values that narrative above the available alternatives. We can illustrate this with the following example: in the Democratic Republic of Maracaibo, a president is elected who, after a month, is no longer liked by anyone, but citizens value democratic institutions more highly than the generally uncertain alternative. Therefore, they obey, even though they do not believe in the leader, because they continue to submit to the institutional framework that he represents and hope to be able to change the nature of the backing—which is usually public in Maracaibo anyway—for the next presidential term.

Finally, one may arrive at a marginally negative legitimacy. This occurs when the actor considers, or would consider, another narrative framework—or any drastic change in the way that institutional promise is realised—to be more beneficial. At this point, the individual assumes that the opportunity cost of obeying the existing order outweighs that of seeking a different alternative.

We then turn to the temporary event that allows the demonstrated preference to be expressed despite coercion: the objective window or crisis. Regardless of whether its origin is exogenous or endogenous, its praxeological effect turns out to be the same. However, the objective window does not necessarily undermine the legitimacy of the existing order; it could eventually strengthen it (as occurs, for example, when the state wins a war and justifies a greater extension of its dominion, even though this action

essentially amounts to a reinforcement of the institutional narrative) (Jouvenel, 1945, p. 28). Strictly speaking, the function of this window is not to overthrow the regime or to change anything on its own, but to allow the individual to express their true preference in contexts where, under normal circumstances, the coercive apparatus would have prevented them from doing so.

2.1. *Objective windows and the political entrepreneurial function*

To theorise the hypothesis of institutional collapse from a praxeological perspective, it is necessary to understand this outcome not as an accidental breakdown, but as a genuine, *de facto* act of protest. In this process, the individual, in the full exercise of their political entrepreneurial function aimed at seeking the best opportunities for subjective benefit, decides to reclaim the inalienable ownership of their submission, previously ceded in usufruct to a ruler who has become insolvent (Huerta de Soto, 1992, pp. 48–49).

However, for the collapse of the existing order to materialise, it is essential to identify the precise convergence of three simultaneous variables at a specific time and place. Firstly, there must be an objective window of opportunity or crisis that acts as factual proof and reveals the system's insolvency. Secondly, there must be a climate of marginally negative legitimacy, a scenario in which citizens assume that the opportunity cost of obedience far outweighs that of rebellion. Finally, and as a fundamental catalyst, it is essential for a coordinating agent to emerge who offers an institutional alternative perceived as superior or potentially more highly valued in relation to individuals' expectations.

Within this framework, the dynamics of power explain why a regime can prolong its agony and navigate for a long time between recurring objective windows and a climate of marginally negative legitimacy without actually collapsing. This artificial survival occurs because mere insolvency is not enough to overthrow an order; an alternative perceived as viable is inevitably required to coordinate individual subjective judgement towards effective institutional change.

In this sense, the coordinating agent or political entrepreneur fulfils a vital epistemological role by acting as a true focal point within the process of change. Their specific function is to provide the anchor where the population's scattered subjective expectations converge, transforming isolated individual discontent into a new narrative. By providing this promise with concrete backing, the political entrepreneur translates it into a credible alternative for individuals, who, in their capacity as 'owning nodes', then proceed to reallocate the usufruct of their obedience.

To characterise the effects of the collapse of the existing order and classify the change in the political bond, it is essential to distinguish analytically between a change of essence and a change of degree. Every narrative debt is anchored in a pre-existing framework of thought that enables individuals to interpret and understand it. In praxeological terms, this anchoring corresponds to the concept of ideology, understood as the set of doctrines relating to individual behaviour and social relations that guides human actions (Mises, 1949, p. 215). Political power is neither a material nor a tangible phenomenon, but a strictly moral and spiritual one, underpinned by individuals' acceptance of that ideology (Mises, 1949, p. 226).

Under this premise, we are faced with a fundamental shift when the logical premises that made the exercise of submission appear legitimate are uprooted. It is not enough for a coordinating agent to offer a new narrative framework; it is necessary to destroy the foundations of the previous ideology and establish entirely new ones. A fundamental shift in the narrative occurs, for example, in the historical transition from justifying obedience to a hereditary king—based on monarchical ideology—to justifying submission to an elected assembly.

In this context, it is possible to identify Marxist socialism as a political doctrine determined to force a fundamental change through sheer coercion. Being unable to sustain itself through an organic consensus, Marxism assumes that the establishment of its new order inexorably requires the violent destruction of the existing capitalist system, regarding revolutionary action as the only valid method for breaking down the previous ideological structure (Mises, 1949, p. 107). In this way, it seeks to impose its own

narrative through systematic institutional aggression against the free exercise of human action (Huerta de Soto, 1992, p. 87).

By contrast, a change of degree accepts and leaves intact the prevailing narrative and ideological premises. In this scenario, political change is limited to altering the nature of the narrative framework or the specific form of its underpinning. Although superficial alterations may occur, in essence the coercive apparatus remains the same. Institutional modifications prove irrelevant when compared with a change of essence, since the individual continues to cede the usufruct of their obedience under the same belief structure, reducing the process to a mere substitution of those who administer power within the same dogmatic framework⁸, which varies only slightly.

3. Towards a meta-legal framework: Authentic law and polycentric governance

In order to establish an institutional order capable of overcoming the chronic insolvency of the modern state, it is imperative to abandon the normative fictions of legal positivism and return to the a priori deduction of praxeology (Mises, 1949, p. 39). The legal order is neither a gracious concession by the legislator nor an arbitrary social construct (Leoni, 1961, p. 12), but rather the inescapable corollary of purpose-directed human action. Self-ownership is therefore not merely a moral aspiration or a concession of positive law, but an axiomatic condition and a fundamental natural reality (Rothbard, 1982, pp. 62–63). Every individual is born possessing bare ownership of themselves, with control over one's own will

⁸ The term 'dogmatic enclosure' refers to the ruler's systematic effort to monopolise the public narrative in favour of the existing order. Through tools such as compulsory public education and propaganda, political power seeks to mould the minds of individuals and indoctrinate the youth with its own dogmas (Rothbard, 1982, pp. 235–236). In this way, the State constructs a cognitive enclosure that restricts the range of conceivable alternatives, ensuring that every social problem and every solution is perceived as a matter for its exclusive administration. Through this, the coercive apparatus manages to artificially generate the inescapable need for its own intervention, thereby justifying the perpetuation of its hold over citizens' obedience.

and body being an inherent quality of the human being and ontologically inalienable (Rothbard, 1982, pp. 193–194). From this fundamental axiom, the extension of property to the material world follows inexorably (Rothbard, 1982, p. 71). Given that every action inevitably requires the use of means, the exercise of the entrepreneurial function—understood in its broadest sense as the innate human capacity to discover and appreciate opportunities for gain in the environment—requires original appropriation (Huerta de Soto, 1992, pp. 41–43). When the analysis is turned inwards, it becomes clear that the individual acts by rationally calculating the risks and benefits of their conduct (Mises, 1949, p. 21). Consequently, when a person's purposeful action negatively interferes with or causes damage to the legitimate property of a third party, the principle of enforceable liability logically emerges (Rothbard, 1982, p. 126). Civil liability is not an artificial invention of the State designed to punish, but a direct deduction from human action and self-ownership: whoever holds the inalienable right to their own will necessarily assumes responsibility for the externalities and harmful consequences arising from their invasive acts against the just property of others (Rothbard, 1982, p. 94).

This chain of reasoning reveals an irrefutable epistemological truth: human action is the ultimate source and the unmoving mover of all authentic law, reflecting individual choices amongst scarce goods (Leoni, 1961, p. 152). The institutions universally valued by classical jurists—voluntary contracts, compensation for damage, restitution—are not legislative creations, but legal expressions of the subjective valuations and legitimate expectations of individuals in their social interaction (Hayek, 1973, p. 125). Set against this authentic or customary law, which springs organically from the principle of responsibility and is discovered through the peaceful resolution of conflicts (Leoni, 1961, p. 12), modern state legislation is exposed as a praxeological anomaly. When the State enacts coercive norms divorced from human action and judicial discovery, it is not creating true law, but rather issuing mandates and organisational rules that usurp political agency, fossilise institutional evolution and destroy the legal certainty that the bare owner requires to coordinate their future plans (Leoni, 1961, pp. 7–9).

Having demonstrated that publicly backed narrative debt is doomed to inescapable technical insolvency due to the impossibility of economic calculation, it is possible to conceive of a basic institutional framework that explicitly recognises the political bond as a relationship of conditional usufruct. In this sense, it is ontologically impossible to adapt the modern state to the rules of human action. The coercive apparatus possesses an inherent tendency towards expansion, seeking to maximise its budget and sphere of influence, protected by what might be termed a hermeneutic monopoly. Since it is the State itself, through its own courts or supreme bodies, that regulates itself, exclusively interprets its own limits and enforces that interpretation, any possibility of genuine external restriction is completely nullified (Rothbard, 1982, pp. 245–246).

Consequently, the true solution does not lie in the constructivist design of a society imposed from above, but in the recognition of abstract rules derived from the structure of action that allow for the emergence of strictly voluntary institutional frameworks. This framework is based on a non-negotiable triad: private property, contractual liability and the inalienable right of secession or opt-out (Hayek, 1973, pp. 233–234; Rothbard, 1982, p. 251). The possibility of withdrawing from the system is not merely an administrative option, but the inescapable market signal that validates or invalidates the legitimacy of an order issuer. Only through free competition amongst multiple coordinating agents vying for the tax base—understood as the voluntary adherence of property owners—is the solvency of the narrative debt truly guaranteed (Molinari, 1849, pp. 18–19).

It is imperative to emphasise that this decentralisation must be implemented through private ownership and not by means of a mere public ordinance. Whilst state administrative decentralisation is always a revocable delegation of authority within a unitary legal system (Kelsen, 1934, pp. 315–316), polycentrism based on private property constitutes an original and inalienable right of exclusion. As Ostrom exhaustively demonstrates in her work, the management of complexity and shared resources does not in any way require a central planner or a coercive monopoly (Ostrom, 2010, pp. 24–25). On the contrary, communities of individuals are

perfectly capable of forging systems of polycentric governance, where the rules and their enforcement are the result of a continuous process of discovery and mutual monitoring amongst those directly affected (Ostrom, 1990, p. 90 et seq.). A free political regime of use of this nature, anchored in jurisdictional competition, directly aligns the manager's incentives with the preservation of the substance of the resource, thereby transforming politics—which is often a zero-sum game—into a dynamic process of social coordination.

General conclusion

In light of the above, it is inevitable to conclude that the contemporary nation-state, underpinned by the fictions of legal positivism and the notion of a centralised order, is entirely devoid of an endogenous mechanism for correcting its own governance. By mistakenly equating any form of mechanical obedience with active legitimacy, the coercive apparatus ensures its own chronic epistemological blindness in the face of constantly shifting valuations and the emergence of new opportunities at the microeconomic level. This impossibility of calculation fundamentally affects the individual's assessment of marginal utility when deciding whether to obey or adhere to a certain institutional order (Mises, 1949, p. 147).

Furthermore, by intervening coercively in processes of spontaneous coordination, the state inevitably creates objective windows of crisis arising from its irresponsible actions. As the theory of the business cycle demonstrates, the manipulation of indicators such as the interest rate on credit leads to widespread misallocation of capital, which inexorably forces a period of recession and readjustment (Huerta de Soto, 2009, p. 304). This systematic lack of coordination dictates the chronic possibility of drastic institutional change when the variables outlined above converge. In other words, this is a system that is structurally fragile by design, incapable of keeping pace with human progress in the sophistication of the law, of adapting to new technologies, or of adequately managing the goods it purports to deliver (Benson, 1990, Preface). In the face of this obsolescence, it is vital to understand that legitimacy is, by its very

nature, an intangible asset that resides exclusively within the individual's innermost being. This moral capital is the product of a marginal utility assessment of the costs of obedience versus those of rebellion, which manifests itself in the real world solely as the actor's demonstrated preference.

Unravelling the nature of this social phenomenon of power enables us to theorise an alternative system in which political and institutional incentives are genuinely aligned towards the coordination of individuals' expectations. By grounding order in demonstrated preferences and free jurisdictional competition, the arbitrariness of coercive hierarchical command is definitively overcome (Hayek, 1973, pp. 149–150). Analysing social processes from this praxeological and epistemologically rigorous perspective ultimately allows us to appreciate the immense power of the voluntary and spontaneous nature of order—realities that lie hidden behind intense cycles of systematic coercion.

The author declares that he has no conflict of interest.

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Notes

DELEND A EST CASTRIST CUBA*

ALBERTO RECARTE GARCÍA-ANDRADE**

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INTRODUCTION

In 1898, when Cuba gained independence from Spain following the intervention of the US Army, it had a population of 1.5 million people: one million Spaniards and 500,000 Black and mixed-race people, mainly of African origin, who had arrived in Cuba as slaves and were gradually freed until the definitive abolition of slavery in 1886. From 1898 to 1930 (the year of the Great Depression) the Cuban governments attracted 1.5 million immigrants, mainly from Spain.

In 1958, Cuba had a population of 6.5 million people, 70 per cent of whom were white, mostly of Spanish origin, alongside communities of Chinese, Lebanese and Jews, and 30 per cent were Black or mixed-race, many of whom had arrived in Cuba from Haiti and the Dominican Republic, hired to work in sugar production.

In 1958, the Cuban economy was fully integrated with that of the United States. The island's main industry was sugar production, which was exported primarily to the United States, which purchased it under a quota system at subsidised prices above market rates. Of the 131 sugar mills – each with the necessary land

* All the data presented in this article up to 1980 are taken from my book *Cuba: Economía y Poder (1959–1980)*, published by Alianza Universidad in 1980. Immediately after its publication, the publisher refused to issue a new edition. The book was published thanks to the support of Javier Pradera. Javier Pradera told me personally that the print run consisted of 3,000 copies. Alianza Universidad never contacted me or provided me with any information. As soon as they were able to do so, they took the book out of print. Pure progressivism.

** State Economist and Trade Specialist.

– more than half were owned by American companies. The rest of the agricultural sector provided the Cuban population with fruit, vegetables, milk, eggs and meat, and exported some products to the United States under conditions of full competition.

Industry had developed around sugar production and continued to grow to meet the needs of a growing country. The basic industrial sector comprised thermal power stations, refineries, cement works and a small steel industry.

Tourism had been developing since the 1920s in response to demand from Americans, as well as through investment by hotel chains, some of which were controlled by the Mafia, which laundered its profits in Cuba.

In 1958, Cuba was a wealthy country, with a per capita income of 352 dollars. Its GDP stood at 2,600 million dollars. It was an educated nation with an illiteracy rate of 23 per cent, major publishing houses, and national newspaper and radio networks. It stood out for its healthcare services, despite the significant differences in income between white and black people. Poverty was concentrated in the countryside and in the sugar-producing industries. The middle class predominated in the cities.

Successive governments since 1898 had always taken care to control public deficits, to maintain their gold reserves—which totalled almost 400 million at the start of 1958—at the National Bank of Cuba, and to ensure economic development, borrowing only to carry out essential infrastructure projects across the island, at national, provincial and municipal levels.

Industrial projects were all privately funded with domestic and foreign capital. The unemployment rate was very low. Foreign trade in goods and services, denominated in Cuban pesos, reflected substantial sugar exports to the United States, which was Cuba's main trading partner; Cuba also exported tobacco, coffee and nickel. Its imports, 70 per cent of which also came from the United States, consisted mainly of machinery, processed foods, motor vehicles and some staple foods such as rice, wheat and lard. Its accounts were essentially in balance. The key to ensuring that the government's control of the economy was sound was the maintenance of the exchange rate of one Cuban peso to one US dollar; this

was guaranteed by a conservative monetary policy, with absolute freedom to convert into dollars or any other convertible currency.

Cuba's last Constitution before the Castro era was that of 1940, which guaranteed individual and economic freedom and the existence of political parties. From 1927 onwards, there was a succession of coups d'état, driven largely by corruption and the fight against corruption. The first was the coup that led to Gerardo Machado's dictatorship in 1927 – having served as constitutional president since 1925 – which lasted until 1933. After Machado, Sergeant Fulgencio Batista rebelled against the officers and held power until 1940. In 1952, Batista—now a colonel—staged another coup and proclaimed himself dictator until he fled the country in December 1958, just before Fidel Castro entered Havana on 3 January 1959.

On 26 July 1953, Fidel Castro's group known as 'El Movimiento', also known as the Centenary Generation (coinciding with the centenary of José Martí's birth), attacked the Moncada Barracks and failed, having caused 19 deaths among the regular army. Batista's army had killed six of the attackers, whilst a further 55 were captured and executed. Fidel Castro was subsequently captured, tried and sentenced to just 15 years' imprisonment. Barely two years later, in 1955, he was granted amnesty by Batista after spending 22 months in prison.

Fidel Castro's rebellion against Batista's dictatorship began again in 1956 and triumphed in late 1958. The United States condoned this new coup – even though the Cuban Constitution had permitted its intervention since 1898 – because it was presented as a democratic movement that would call for democratic elections once more and fight against corruption.

But Fidel Castro's objectives were very different from those of all the coups and dictatorships of the previous 40 years.

Firstly, Castro wanted neither political parties, nor democracy, nor free elections. He wanted to be a dictator for life. In fact, free elections have never been held again in Cuba. From the moment he seized power, he realised that the political regimes that guaranteed lifelong dictatorships were communist ones. For his aspirations to absolute power, they were a guarantee.

All the far-reaching economic decisions taken by Fidel Castro between 1959 and 1970 were aimed at stripping away the economic power of everyone living in Cuba or who had invested in Cuba and owned property or businesses in any sector – be it agriculture, mining, fisheries, industry or services.

Before carrying out **the expropriations, without any compensation, of all US and Cuban-owned companies and properties**, he had already reached agreements with the USSR in 1960 to secure loans to finance the public and balance-of-payments deficits that would result from his decisions.

This was a radical policy which he had already implemented in the political sphere, by physically eliminating, imprisoning or forcing out of the country all the politicians who had collaborated with his movement to overthrow Batista.

Another radical policy was to force all Cuban nationals who owned property or businesses to leave Cuba. Between 1959 and 1965, in the space of just six years, around 600,000 Cubans left the country, including business owners, managers and qualified professionals, after having been stripped of everything they owned.

However, the first and most important policy was to terrorise the entire population through executions and endless prison sentences that were always served in full, as he knew that any amnesty could turn those released into enemies with inside knowledge. One example was the trial of the 43 members of the regular army's Air Force held in March 1959. All were acquitted by a Revolutionary Tribunal after it was proven that, far from bombing the population, they had sought to drop their bombs on open fields and uninhabited areas. Fidel Castro spoke out against the acquittal. He said that they were all guilty. They were retried and sentenced to between 20 and 30 years' imprisonment. The message was very clear. To his own people – the only ones he had – he was also the head of the judiciary; and to everyone else, that if they wished to keep their lives or their freedom, they had to obey his decisions, whatever they might be.

Once the State owned everything, from housing to all enterprises engaged in any kind of activity, Cuba was labelled 'socialist'. It was socialist in terms of ownership, but not in terms of economic activity, which was driven not by plans or objectives but according

to Fidel Castro's convictions, desires or whims at any given moment. His poor education and his complete ignorance of all matters relating to the market economy condemned Cuba to misery and bankruptcy. Not him, however, who lived until his death in luxury and amid the – incomprehensible – admiration of a considerable section of the left and progressive movements worldwide.

It is worth recalling that on 1 January 1959, Fidel Castro seized power in Cuba to implement the economic policy we have outlined, and that on 21 July of the same year, Francisco Franco, Head of the Spanish State, approved a 'stabilisation plan' for the Spanish economy which entailed, first and foremost, a renunciation of state intervention in the economy. The currency was devalued, exports and imports were liberalised, autarky was abandoned as a means of controlling the economy, public spending was cut, and the market was allowed to set prices. Support was sought from the IMF and the World Bank to finance the transition to a market economy. Spain has never defaulted on its debts and, whenever necessary, has implemented such plans to stabilise the economy. When Franco died, Spain had a middle class that provided social stability for the country, and Francoist laws that enabled the transition to a full democracy, enshrined in a Constitution in 1978, which was approved by an overwhelming majority of Spaniards. That same year, Fidel Castro also published a Constitution that would guarantee his tyranny until his death. In 2025, Spain's per capita income stood at \$40,000. Cuba's was between \$1,200 and \$3,000. Two different types of dictators.

I.

THE PERIOD OF THE ANNIHILATION OF ALL PRIVATE ENTERPRISE (1959–1970)

In 1974 I was posted to Cuba as Commercial and Economic Counsellor at the Spanish Embassy. I was keen to see how a socialist economy worked first-hand and in touch with reality. It didn't take me long to realise that everything was FEAR and TERROR. I naturally interacted with Cuban officials from many ministries. There

were enthusiastic Castro supporters in positions of responsibility, but most lived in constant fear of speaking out, of being seen associating with a foreigner, or of being spotted arriving home outside their usual hours by a member of the Committee for the Defence of the Revolution.

The drafters of the Penal Code, the political leaders who approved it, and the police who enforced it all knew that it was impossible to live in an economic system with a ration card that covered needs for just one to two weeks; it was essential to turn to the black market to acquire what was necessary to avoid going hungry. Everyone knew that this terrible Penal Code applied to all of them. But that was always the point: to instil terror.

At a time when it is becoming clear that Cuba is a failed state and when, apparently, the economic reforms needed to lift the vast majority of the population out of poverty are being discussed, I believe it is evident that, rather than talking about the economy, we must first address how to replace the current 2019 Constitution of the Republic of Cuba and its Penal Code, which allow its leaders to terrorise a population that has no rights whatsoever.

It has been a long time since Cuba's economy could be properly analysed. There are no reliable statistics on anything. The IMF says its per capita income could be similar to that of Haiti.

The revolutionary laws and the Criminal Code

We have already seen that Cuba was a thriving economy in 1958. It was a major sugar producer, with modern sugar mills and a fairly diversified agricultural sector – given its subtropical climate – capable of exporting to the United States. It had nickel mines with their own processing plant. And a rapidly developing tourism industry. It was the third country with the third-highest per capita income in the whole of the Americas. And it boasted a respected healthcare system, a high standard of education and a first-rate publishing sector.

It had a per capita income of \$352, compared with \$200 in Spain. Twenty-three per cent of its population were illiterate, compared

with 32 per cent in Spain in the year prior to Fidel Castro's 'triumph'.

The destruction of Cuban society and the economy took place at a rapid pace between 1959 and 1970.

From an economic perspective, all domestic and foreign companies and all agricultural land exceeding 67 hectares were nationalised and expropriated; although, somewhat later, the crops and prices of what the non-expropriated peasants produced were fixed, and they were integrated into agricultural organisations led by revolutionaries.

The most far-reaching law governing the Cuban economy – which explains the poverty in which Cubans live – was published in 1968.

On 13 March of that year, Fidel stated: "... we must further boost productive effort; we must root out selfishness, individualism and all forms of parasitism and exploitation". Within a few days, all private industrial and commercial establishments were nationalised; in the words of Fidel Castro, these were "nests of the privileged who live off the labour of others, watching as others work". All shops, workshops and warehouses were closed. In Havana alone, 13,000 private establishments were closed in March 1968. By April 1968, the private sector had ceased to exist.

That same year, Fidel Castro took direct control of the organisation of sugar production. He set out to produce 10 million tonnes of sugar by 1970. The whole country was brought to a standstill in order to achieve this. It was an utter failure, despite the contribution of Nobel laureates, such as J. P. Sartre, and a host of left-wing leaders from around the world, who came to cut sugar cane in solidarity with Fidel Castro.

All these decisions were not mistakes or accidents; they were a clear reflection of the fact that, for Castro and his henchmen, the crucial thing was that no one—no individual, family or company—should be independent. For all of them, independence and initiative, whether personal or corporate, were enemies of the Revolution, because such freedom, if it resulted in any form of private savings, could give rise to ideological positions incompatible with their 'revolution'. All Cubans had to live on what the State

provided them with. And 'each person would be given according to the value of their contribution'.

In the words of Fidel Castro from September 1967, published in the *Nouvel Observateur*: '...I am opposed to material incentives, because I consider them incompatible with socialism... What we want is to demystify money, not to rehabilitate it. We even intend to abolish it entirely... The law of value makes sense in capitalist society, where the economy is based on profit. It has none whatsoever in a socialist society. We, who are in a period of transition to socialism, have no reason to resign ourselves to the economic laws of capitalism, as if our aim were merely to manage the old system more efficiently. We have discussed this point at length and have decided to free ourselves as quickly as possible from the shackles of the market. Our planning must be based on 'labour value' and not on misleading calculations of profitability or profit. We are going to abolish all financial accounting in transactions between socialist enterprises."

During those first eleven years of the Castro regime, Cuba survived by exploiting the resources invested in enterprises, housing and infrastructure by the people who lived in Cuba until 1958. And through the subsidies and aid that the USSR was prepared to provide even in those early years, as proof and an example that the power of the United States was limited and waning. It was the Cold War. The USSR considered itself well rewarded by Castro's anti-American and socialist propaganda around the world and by his armed interventions.

The destruction of Cuban society is reflected in the Penal Code in force even in those early years. I am referring to the 1963 Code of Social Defence, subsequently amended on numerous occasions – most notably in 1978 – and which remained in force until May 2022, further tightening the sanctions against dissent and private funding from abroad.

On 28 September 1977, Fidel referred to the offences he wished to "combat more resolutely", emphasising gambling, prostitution, robbery and theft, which he described as "relics of the past". The Code divides offences into common offences and political offences. He does not refer explicitly to the latter because they are termed 'anti-social behaviour'.

The Castro regime's Penal Code explicitly states:

"A person is considered to be a dangerous individual due to anti-social behaviour if they habitually, through acts of violence, or words, or gestures, or by other provocative or threatening means, or through their general behaviour, violate or endanger the rules of socialist coexistence, or flout the rights of others, or frequently disrupt the order of the community".

Those who do so may be detained without trial. Article 137 states:

"Any person who, with the aim of undermining state security, manufactures, supplies, sells, transports, dispatches, brings into the country or possesses, in any form or place, flammable, explosive, asphyxiating or toxic materials, substances or instruments, or chemical or biological agents, or any other element from the combination of which products of the nature described may be derived, or any other substance or device suitable for carrying out acts of sabotage, shall be liable to a sentence of imprisonment for a term of ten to twenty years or the death penalty".

Allow me to quote Article 473.1 of Law 1,262 (published in the Official Gazette No. 2 of 1974). These are not provisions of a Criminal Code intended to combat the enemies of the Revolution, but rather to instil fear in anyone who might think outside the bounds of Castro's socialism.

"Any person who deliberately destroys, alters, damages, impairs, prevents or hinders the normal functioning of the following means, resources, facilities or socio-economic units shall be punished with imprisonment for a term of 5 to 20 years: energy sources, cold stores, depots or warehouses and other facilities intended for the storage of goods for use or consumption, educational establishments, public buildings, shops, hostels, or premises of political, social or recreational organisations. Basic industrial and agricultural equipment and resources, crops, forests, dams, utility poles and livestock; port or aviation facilities, ships or aircraft, supplies, equipment or accessories intended for those services".

The article I have just quoted refers to all kinds of economic activities taking place in Cuba. To complete the picture of FEAR, another provision is needed: the one relating to common crimes.

Article 159 states: "Anyone who steals movable property belonging to another person, with the intention of making a profit, shall be punished with imprisonment for a term of 3 to 8 years, where the offence is accompanied by any of the following circumstances: entering or leaving the premises by a route not intended for that purpose; the use of a false key, or the use of a genuine key that has been stolen or found, or a lock pick or other similar instruments; breaking through a wall, ceiling or floor, or forcing open doors or windows, or their locks, latches or fastenings; breaking into cupboards and other types of furniture or objects that are locked or sealed, or in any other place, even if the breaking or use of force is not actually carried out; or the use of force on the property itself". But even more significant, in terms of instilling fear in the population, is the following article, Article 520, which reads as follows:

"The penalty is imprisonment for a term of 10 to 30 years or the death penalty if any of the following circumstances apply to the acts referred to in the preceding article: where the offence is committed in an occupied dwelling; where the offence is carried out whilst the offender is unlawfully wearing the uniform of members of the Revolutionary Armed Forces, or of any other armed force of the Republic, or whilst pretending to be a public official, or whilst displaying a false order or warrant from an authority; where the offence is committed by one or more persons acting as members of an organised group or gang; or with the participation of persons under 16 years of age, ...where the property stolen is socialist, state or cooperative property, or that of social institutions, or personal property in the care of a state economic entity".

Nothing escapes the Criminal Code, neither homosexuals (until 1997, when Article 303 of the Criminal Code was amended), nor farmers. Specifically, Article 529 states: "Any person who, without prior authorisation from the state body specifically empowered to do so, or outside legally established abattoirs or places authorised for slaughter, slaughters cattle, whether for sale or for personal

consumption, shall be punished with imprisonment for a term of 2 to 5 years."

With regard to political prisoners, on 20 October 1977, Fidel Castro declared: "We have a distinction between political prisoners and counter-revolutionary prisoners. A political prisoner is someone who is arrested and convicted for seeking to improve society, fighting for the good of humanity and for the progress of society. We do not hold the same view of those who fight to set society back. We refer to them as counter-revolutionary prisoners, who are imprisoned for committing crimes – specifically, serious crimes." He continues: "80 per cent of the individuals we had imprisoned for counter-revolutionary offences are now free. Therefore, those who remain – there may be some new arrivals, I do not deny it, I do not deny it! – will be released through this programme (referring to political re-education programmes) and, in some cases, will be released once they have served their sentences."

Fidel Castro's 'Guevarism' is leading Cuba straight towards default and domestic inflation, as public deficits are covered by the National Bank of Cuba issuing banknotes, which in turn leads to the devaluation of the Cuban peso, which is trading on the black market at a rate of 3 to 1 against the official rate. This was the first of the major devaluations of the Cuban peso, a reflection of the hyperinflation that would henceforth never cease to affect Cubans.

In fact, the first suspension of payments had occurred in 1960, when the Castro regime repudiated the payment of all external and internal debts. No debts were recognised as legitimate. Furthermore, following the nationalisation of US assets through expropriations without financial compensation in 1962, this marked the inception of the US trade embargo against Cuba, which prohibits trade with Cuba and extends to most South American countries.

Based on the reliable data available, we know that in 1962, three years after the establishment of the Castro regime, Cuba's GDP had fallen by 25 per cent compared with the figure recorded in 1958. There are no reliable statistics for the period between that year and 1970. According to official figures, GDP in 1970 stood at 5,690 million pesos. If we take into account the devaluation of the Cuban peso

on the black market, in dollar terms this could amount to 1,896 million dollars, compared with 2,600 million dollars in 1958.

Nor is there any data on public deficits since 1962, as annual public budgets ceased to be drawn up. What is available are public expenditure figures covering government administration and the management of production by public enterprises across all economic sectors, as well as revenue from the sale of goods produced by the new public enterprise sector – with virtually none of the typical sources of revenue, as personal and corporation taxes had been abolished. In effect, the vast ‘State Enterprise of Cuba’ had been created. The other major item of expenditure, which appears in 1962, is that relating to the ration cards for the entire population, through which Cubans purchase goods at subsidised prices; these prices represent, directly, public expenditure in the amount of the subsidy.

Balance of payments deficits are covered by Soviet loans, which begin to accumulate in excess of the subsidies.

On 20 May 1970, Fidel Castro admitted, visibly moved, that the target of 10 million tonnes of sugar would not be met. His self-criticism became more pronounced in his speeches on 26 July and 28 September of that year. Castro announced that he would step down from the leadership of the country to be replaced by more capable people. But ‘the people’ opposed this. A resignation that never took place. In 2024, Pedro Sánchez threatened to do the same. The only difference is that Castro considered resigning because of his failure as a leader, whilst Pedro Sánchez did so for love.

II.

SOVIET CUBA (1970–1991).

Castro hands over economic control to his brother Raúl, the Cuban Communist Party and the Soviet bureaucrats, who, during this period, bring **about Cuba’s second economic catastrophe.**

The economy became regulated, over-regulated and hyper-regulated with the introduction of the USSR model, which was already strangling the Soviet economy. Five-year plans were drawn up by the Central Planning Board. Wages, prices and profits were fixed

for the public enterprises that formed part of the vast 'State Enterprise Cuba'.

Of course, all the statistics were erroneous or false. JUCEPLAN's task was to achieve a GDP growth figure for each year by manipulating prices sufficiently to balance income and expenditure. Despite this, market-economy countries believed that Cuba had become a credible nation, one that could be financed.

Incredible as it may seem to us now, the five-year plans of the Soviet Union and other communist countries convinced many Western economists that the figures were accurate and that the necessary efforts were being made to meet them through rigorous reforms where these were essential.

When Cuba became Sovietised, it was taken for granted that balance of payments deficits, public deficits and inflation would be kept under control. And that the growth figures would be genuine. Western countries, as well as Japan, competed amongst themselves to see who could sell the most capital goods and complete plants to Cuba on long-term credit. Moreover, private banks and sellers of consumer goods did so without additional guarantees. Between 1972 and 1986, over a period of 14 years, long-term loans from market-economy countries, within the framework of the Paris Club, totalled around 5,000 million dollars, not including those from other countries. That is the initial scale of Cuba's second suspension of payments in convertible currency.

That figure—the 5,000 million (excluding the 8,500 million in interest)—together with a further 6,000 million convertible roubles granted by the USSR up to 1989, constitutes, taken together, an approximate figure for the imports of capital goods and complete plants installed in Cuba from 1959 to 1991 to modernise its industrial sector. To this figure must be added the potential investment of 3,500 million dollars that Putin's Russia granted to Cuba in 2014. A derisory sum, which explains the lack of productivity in the Cuban economy to this very day.

In 1958, Cuba exported goods worth 733 million dollars, of which 490 million were sold to the United States. It imported goods totalling 777 million, of which 542 million came from the United States. In 1975, with the US embargo in force, Cuba imported 3,133 million convertible pesos and exported 2,946 million pesos supposedly

convertible into dollars. The USSR had become Cuba's main trading partner. It exported no less than 1,250 million and imported 1,661 million, with sugar being the most important commodity. Cuban sugar exports were made at hyper-inflated prices, whilst Cuban imports – starting with oil and its derivatives – were made at devalued prices.

I would also like to emphasise that Cuba's imports from the rest of the world outside the Comecon totalled 1,000 million pesos in 1975, whilst exports reached 1,600 million; figures consistent with the reality of free foreign trade with the non-Comecon world. The US embargo was no longer felt. And trade was conducted with the same countries with which Cuba had had commercial relations prior to 1959.

Planning

But let us return to the world of planning. Cuban bureaucrats, content in their isolation from the rest of the non-Soviet world, never tire of explaining how the new economic system works and the difficulties it poses for them.

The planners' first problem is how to set the prices of each and every good that is produced, traded and sold, both to Cubans and to buyers abroad. Law 1312 of 23 August 1976 stipulated that, from 1 January 1977, the prices in force on 31 March 1976 would apply. This involved more than 1 million official prices and tariffs.

To ensure that all company managers and heads of administrative bodies knew which prices to use, **29 volumes were printed, each containing over 300 pages.** There were many products with different prices. How could they ensure that every person in charge applied the correct ones? A print run of 200 copies was produced and distributed to municipalities, provinces, ministries and other official bodies. **There is no record of anyone consulting these prices or of any doubts regarding which prices to use being resolved.**

An example of how these prices were at odds with reality can be seen in relation to Cuba's most important product at the time: sugar.

In an official publication, without mincing words or holding back, the planning officials explain their difficulties: "We find ourselves in a situation where, for example, imported goods sold on the domestic market are still priced at 1968 levels. This is the case, for instance, with fuel and oil, to name but one." "Well, we could start raising the prices of those products, because that phenomenon is occurring (...referring to inflation). But by raising the prices of those products – for companies in the sugar and other sectors... if we now increase the cost of their production inputs because they are imported, and we raise them for agriculture too – because fertiliser, pesticides and a range of other products are in a similar situation – then agriculture and the sugar industry, which are already unprofitable under current price conditions, would become even less profitable... Now, what should be done about this price problem? Can certain steps be taken before 1979 or 1980, or should we wait until those years to take action (referring to the New Fortnightly Plan)? These are matters yet to be decided..." In the best-case scenario, the prices of these products, including sugar, would remain frozen for another four years.

Nothing was ever decided. There were never any realistic prices. Everything was rigged. In reality, in order to function, quantities were adjusted. Each manager knew the amount of electricity, oil, glass, paper, steel... they needed to produce whatever it was. And they reached agreements on quantities to produce and to sell. A system, a practice, that could not cope with change. Nor were improvements possible if they involved changes to the quantities. Impossible. The consequence was the inability to improve or make adjustments. This was the ultimate reason for the failure of the USSR and its satellite states. Anecdotally, the most 'troubling' aspect is what happened to the East German economy. Western economists had taken East German statistics at face value; they believed it to be a fairly developed country, which perhaps encouraged Chancellor Kohl – alongside electoral considerations – to swap East German marks for West German marks at a rate of one to one, when on the black market the exchange rate was eight to one.

The second suspension of payments (1986) and those that followed

Finally, Cuba – a country under a blockade, according to the Cuban government and its staunch supporters around the world – suspended payments to Western countries in April 1986. Negotiations between the creditor countries – with Spain being the hardest hit – dragged on throughout the 1980s, 1990s and 2000s. It was not until 2015 that the Paris Club decided to write off 8,500 million dollars in interest. A further 2,400 million owed to Spain and another 2,600 million owed to the remaining 13 members of the Paris Club were still outstanding, to be paid in instalments until 2033. Default on these new terms began again in 2019 and, for the third time, in 2021, Cuba suspended payments. Another suspension occurred in 2024, the penultimate one in 2025, and the last one took place in February 2026. **This brings the total to six payment suspensions.**

Cuba leased its army to the USSR

However, despite the suspension of payments in convertible currency, Cuba maintained its planned economy with the expected results. This was of no concern to either Fidel Castro or the senior Soviet officials. A new form of financing, independent of the conventional economy, had emerged – a new category of services in the balance of payments. Cuba sold the labour of its military personnel, and later that of doctors and teachers, and the USSR paid whatever had been agreed.

Cuba became the armed wing of Fidel Castro, the USSR and the most belligerent countries of Eastern Europe. In 1975, Cuba intervened in the Angolan war, which did not end until 1991. More than 400,000 Cuban soldiers and over 50,000 medical professionals and educators fought and collaborated with the Angolan Marxist regime. The Cuban army's intervention was not limited to Angola. It played a decisive role in other countries, such as Ethiopia, Somalia, Eritrea and Oman, and was also present in the conflicts with Israel, supporting the Palestinians. Meanwhile, in 1973, Fidel

Castro was touring Chile , demanding a coup d'état should Salvador Allende lose the forthcoming elections. He was also collaborating with Alvarado's Marxists in Peru.

The cost of weapons and military logistics – apart from personnel costs – was paid directly by the USSR without going through the balance of payments.

It is estimated that, from the time the USSR replaced the United States as Cuba's main trading and economic partner, the Cuban economy received enormous annual subsidies, amounting to around 25 per cent of GDP. In the case of sugar, the system mirrored that of the United States, purchasing a quota of tonnes at prices far higher than those on the international market. Likewise, it sold its oil to Cuba at prices well below international market rates and even allowed Cuba to sell any oil it had not used domestically on the international market. The same system was used for the purchase of Cuban nickel and for Cuban imports of foodstuffs, industrial goods and capital goods.

Venezuela's system of subsidies to Cuba, which we shall examine later, mirrors that of the USSR for its oil, including the possible resale on the international market. When the USSR collapsed, it emerged that, in addition to these annual subsidies, the USSR's trade credits to Cuba were several times greater than Cuba's GDP in 1989. Gorbachev's USSR began to demand repayment of the debt in 1989.

Fidel Castro's disregard for figures and for the Cuban people

I can illustrate Fidel Castro's disregard for the domestic economic situation with two incidents that occurred whilst I was head of the Trade Office in Havana. Spanish exports to Cuba in the 1970s were made on FOB terms, on Cuban-flagged vessels. In 1975, for at least four months, Spanish goods bound for Cuba were piling up on the quays of Spanish ports, whilst Spanish companies were unable to collect payment. The Cuban ships failed to turn up. The Cuban authorities insisted that their ships would arrive soon. Faced with this impasse, and together with the then Under-Secretary of State for Trade, Eduardo Peña, we persuaded the minister to publish a prominent advertisement in Madrid's *Hoja del Lunes*, urging

Spanish companies to lodge a protest so that they could claim compensation from the Cuban government. Fifteen days later, the ships turned up. We later learnt that the entire Cuban fleet was occupied with transporting weapons and fighters for the war in Angola. And so it continued throughout the year.

The Cuban economy ground to a halt that year. But it didn't matter; the Russians paid willingly and the Cubans put up with it as best they could.

A second example of Fidel Castro's disregard for the economy. In September 1978, Adolfo Suárez visited Cuba for two days. One of the planned events was a visit to a large cement plant in Mariel that had been supplied and built by a Spanish company. At the last minute, the visit was cancelled. Together with the Spanish businessmen, I travelled to Mariel to find out what had happened. The factory manager replied, looking dejected, that the plant was not operating because some of the electrical equipment had been sent to Angola and he had not been told when it would be replaced.

Speaking of contracts between Spanish companies and the relevant Cuban ministries, I must mention a clause that appeared in all contracts for all exporters, regardless of nationality. It expressly stated that it was **'strictly forbidden to burn banknotes issued by the National Bank of Cuba'**. It so happened that foreign workers, who were paid a portion of their wages in non-convertible Cuban pesos, were in the habit of burning all their surplus banknotes, as they could buy nothing with them and they were not convertible once their contracts had ended.

Control of emigration and the development of tourism

The new demands made by Soviet planners—which Fidel Castro reluctantly accepted in order to facilitate Cuba's financing in convertible currency and its own economic growth—were the development of tourism and the control of emigration among professionals and university graduates.

The most important thing was to halt the emigration of Cuban professionals and university graduates. This is what was done. And this caused great unrest amongst those who wanted to flee

the Cuban 'paradise'. An incident involving six Cuban nationals who sneaked into the grounds of the Peruvian embassy on a bus, and the refusal of the Peruvian representatives to hand them over to the Cuban authorities, provoked the wrath of Fidel Castro, who decided to withdraw police protection from the Peruvian embassy. A stunned Fidel Castro was forced to watch as, within a few hours, more than 12,000 Cubans sought refuge on the embassy grounds. The crisis caused by this gathering of Cubans desperate to flee at any cost ended with Fidel Castro, in another fit of rage, authorising anyone who wished to leave to do so from the port of Mariel. Thousands of boats arrived from Florida. The exodus totalled 150,000 people. Fidel Castro took the opportunity to force the captains of these vessels to take on board a large number of prisoners convicted of common crimes and patients from psychiatric hospitals. This event is explored by Leonardo Padura in his latest book, *Morir en la arena*.

The desperation of the Cuban people was once again on public display in 1994 with the 'rafters' crisis. More than 35,000 Cubans were picked up by vessels from Florida.

Neither the Soviet bureaucrats nor the most ardent Castro supporters could ever have imagined that the one million Cubans who managed to leave Cuba between 1970 and 2018 – following the departure of the first 600,000 between 1959 and 1965 and the other group, of between one million and 1.5 million who left the island between 2020 and 2025, would become a source of convertible foreign currency for the perpetually bankrupt Castroist Republic of Cuba. The figures are not as opaque as they usually are, as transfers from the United States and other countries, such as Spain, have been made through banking and financial channels outside Cuba. The total figures, which we shall analyse later, far exceed the value of Cuba's exports of goods, which remain the same as in 1959, except that sugar has now disappeared: nickel, cobalt, other minerals, tobacco, rum, some sugar and a few pharmaceutical products.

A second initiative was to allow the development of tourism. To this end, foreign capital was permitted to enter the country, enabling hotels to be built and operated whilst the government retained a majority stake, without recognising the right to

ownership of the properties. Tourism gradually became a source of convertible foreign currency.

The sale of services abroad: the Cuban army

In 1975, the Cuban army arrived in Angola to defend the Marxist government. In 1978, the military intervention gave way to a more ambitious project; drawing in part on what they had learnt in Angola, Fidel Castro decided to embark on a new venture: the sale of medical, educational, security and military services to countries that had the foreign exchange to pay for them and whose ideology aligned with Castroism; in short, to dictatorships similar to Cuba's.

In September 1978, during one of the official meetings between Fidel Castro and some of his ministers and President Adolfo Suárez—who was on a two-day official visit to Cuba, accompanied by the Minister for Foreign Affairs, Marcelino Oreja, and the Under-Secretary for Trade, Carlos Bustelo, as well as Ambassador Suárez de Puga and some members of the Spanish embassy, among whom I was present— President Suárez informed Fidel Castro that, despite the efforts of Hispanoil – at that time the only Spanish oil company – little oil had been found in Cuban territorial waters, and what had been found was of poor quality and not easily extractable. **Castro did not take long to reply: 'It doesn't matter'; 'We don't have oil, but we will earn the same foreign currency by graduating five thousand doctors a year and selling their services abroad'.** Carlos Bustelo asked him what they would do with the doctors once they returned to Cuba after serving abroad. He did not reply. For Fidel Castro, it was clear that most of the doctors would never return to Cuba, for if they wanted to support their families, they would have no choice but to sell their services – paid for in convertible foreign currency by the government, and in Cuban pesos by the doctors themselves – in one of the many friendly countries that sought their services.

Speaking of visits by Spanish government officials, I would be remiss if I did not recount what happened to me personally when **Nemesio Fernández Cuesta**, a minister in the Arias Navarro government, arrived in late 1974, at a time when Franco was still the

Head of State of Spain. It was the first visit by a Spanish minister to Cuba since independence in 1898. The purpose of the visit was to sign a new protocol under which Cuba undertook to sell Spain a large quantity of sugar at an agreed price at a time of severe shortage, whilst Spain granted loans for the sale of capital goods. As was his custom, Fidel Castro asked that the entire Spanish delegation, of which I was a part, be taken to a 'protocol house' run by the Cuban Government to meet the Spanish Minister for Trade. Aside from Castro's thanks to Franco for having always kept trade and communications between Spain and Cuba open, despite pressure from the Americans, Castro turned up at three in the morning – another of his habits. At one point during the meeting, he asked for some Spanish wine to be brought to him. That was impossible at the time. However, as my house was just 100 metres from the protocol house, I offered to bring wine for everyone. With great difficulty, clutching six bottles of Cune red wine in both hands, I carried them to the aforementioned protocol house. His gigantic bodyguards took the six bottles from me. Meanwhile, Castro kept asking for his Spanish wine. It so happened that I suddenly came across a waiter who presented me with six glasses of wine, insisting that I try them all. I refused. I told the waiter that I would only try one. The head of security didn't bat an eyelid. I drank one glass, the head of security another, a third was drunk by Cuba's Minister for Foreign Affairs, a fourth by the Minister for Trade, and I cannot recall who drank the other two. And afterwards we all waited for at least half an hour to be sure that no one had been poisoned. Nothing happened, and Fidel Castro, without even saying thank you, single-handedly polished off a bottle in a matter of minutes.

Fidel Castro, the Soviet coup leader

Since 1986, Fidel Castro had made it clear that he did not agree with Gorbachev's perestroika and glasnost. He reiterated time and again in his speeches that those policies would only serve to weaken his Revolution. In Cuba, between 1986 and 1991, there were no reforms whatsoever. Castro, drawing on his prestige as an anti-American leader, supported , members of the almost defunct

USSR and the KGB who spent those years plotting against Gorbachev.

Gorbachev survived the coup, granted freedom to the countries of Eastern Europe and allowed member states of the USSR to secede if they so wished. Among those that seceded were Belarus and Ukraine, much to the despair of Putin, who at that time was a mid-level operative in East Germany. And it brought an end to the USSR's special relationship with Cuba, mainly as punishment for its support of the coup, partly because Russia could no longer sustain Cuba economically, and, finally, because the Cold War had ended and they no longer needed an armed proxy to confront the United States around the world.

In July 1989, Fidel Castro ordered the execution by firing squad of General Ochoa – the most prestigious general in the Cuban army – and three of his most senior officers, accused of drug trafficking. The reason behind this decision has never been clear, although Fidel Castro's track record – from his university days through to the elimination of all his political opponents both before and after 1959 – suggests that he was preparing to seize absolute power, not merely over the Communist Party but, specifically, over the army.

What is beyond doubt is that Cuba was trafficking in drugs. This would have been a further incentive for the agreement with the Venezuelan narco-state. It is impossible to believe that the Cuban army and security forces, which bolstered the Venezuelan dictatorship for 25 years, were not key players in that trafficking.

The inevitable consequence of the policy of military intervention in countless countries was the strengthening of the army. The army became the backbone of the Castro regime. By 1991, the era of the Guevarist revolutionaries, the Communist Party and its five-year plans had come to an end. It was the army's time; from that moment on, it has controlled – and collected – revenue from tourism and remittances from Cubans abroad (until 2024) through GAESA, a company controlled by the generals closest to Fidel Castro. We shall look in more detail later at the way GAESA (Grupo de Administración Empresarial S.A.) operates.

III. THE PERMANENT 'SPECIAL PERIOD' (1991–2026)

In 1991, Fidel Castro had to inform the Cuban people that Cuba had entered a 'special period' of economic restrictions. He explained that this was due to the collapse of the USSR and the independence of the Eastern European countries (the COMECON), but he never mentioned his own role in the 1989 attempted coup against Gorbachev.

In fact, 1991 saw **the normalisation of external economic relations**. For the first time since 1959, Cuba was forced to organise its economy without significant foreign aid. Overnight, Cuba found itself without subsidies from the USSR and the other COMECON countries, and with a vast workforce of military personnel, police officers, doctors and teachers for whom there was no demand.

This phase of the Cuban economy comprises five distinct periods. The first, from 1991 to 1994, was marked by a dramatic economic downturn (a 36 per cent fall in GDP) and a consequent decline in living standards. **The second, from 1995 to 1999**, was characterised by stability amidst poverty. **The third, from 2000 to 2019**, saw a minimal recovery thanks to relations with Venezuela. **The fourth, from 2020 to February 2026**, is another crisis similar to that of 1991, triggered by the pandemic, which has affected tourism, oil prices (except in 2022 and 2023 due to the war in Ukraine) and a reduction in remittances from Cubans abroad.

The fifth is the current phase, which begins with Maduro's abduction and is characterised by the collapse of the Cuban economy, which was forced to declare a suspension of payments for the sixth time in 2026. The ban on oil imports accelerates the process of collapse, but even without it, the demise of the Castro regime seems impossible to avoid.

The collapse of the USSR and the loss of its thousands of advisers, who had taught them how to repress and control the population, left Fidel and Raúl Castro facing the dilemma of how to replace them in order to maintain their regime of terror.

Internal security is entrusted to the army. Not to the army's generals, but to the Castro loyalists within the army. And, amongst these, to those closest to the Castro family.

The second challenge was how to finance this power structure outside the public budget. In 1993, Raúl Castro had set up GAESA to secure foreign currency income for them, thereby keeping them separate from whatever might happen to ordinary public revenue and expenditure. From the outset, they became the managers of the tourism sector. GAESA holds the shares in the joint ventures set up with foreign investors for the construction and operation of new Cuban hotels.

Subsequently, they took control of the management and revenues of all activities involving foreign currency – from the bank where all foreign trade operations are centralised to the control of remittances from emigrants.

The next step was for GAESA to take control of Venezuelan oil exports, which were used to pay security personnel, military personnel, doctors and teachers who turned Venezuela into a dictatorship similar to that of Cuba.

It is certain that the profits from Venezuelan drug trafficking bolstered the Castro family's income, either through GAESA or directly.

Consequently, the macroeconomic analysis presented in this essay can only be approximate.

Taking stock of the economy

It was time to take stock of an economy that had adapted to Marxist–Leninist principles and Soviet-style five-year planning. An economy that, in four years, from 1991 to 1994, contracted by 36 per cent. A crisis in which Cubans suffered significant reductions in their ration cards. The vast majority went even hungrier. They continue to do so today.

Cuban agriculture was unable to supply even a minimum of the essential foodstuffs required to fulfil the entitlements on the ration cards.

The agricultural sector

He was the hardest hit from the very outset by Fidel Castro's victory in 1959. Just as had happened with the Russian and Chinese Revolutions. Fidel Castro branded all peasant landowners with holdings above a minimum size (67 hectares in the case of Cuba) as counter-revolutionaries. They all lost their land, which became the property of the State.

Agricultural holdings were organised into state-run enterprises, state farms and cooperatives. Even those who had retained their land were forced to join cooperatives which dictated what they should produce, what they should buy and what they should sell – and at what price.

The result was a catastrophe, mitigated, in part, by the statistically recognised higher productivity of landowning farmers.

And, incredible as it may seem, the reforms needed since 1991 were implemented slowly and with major limitations. Instead of following the policies of Deng Xiaoping—whose first act was to dissolve state-run farms and cooperatives and give farmers the freedom to produce whatever they wished at market prices—they followed those of the new Russian Federation, which took three years to recognise private ownership in the agricultural sector.

The only part of the Cuban agricultural sector that was functioning in 1991 was the tobacco sector, which Fidel Castro respected for propaganda purposes and because it was capable of generating foreign exchange.

And the sector in the worst state was that dedicated to sugar cane cultivation. Castro's obsession with sugar partly explains the nationalisation of the countryside, along with the expropriation of the 161 sugar mills that were in operation in 1959. Castro's incompetence was such that he believed the countryside and the sugar mills would be capable of producing 10 million tonnes of sugar annually on a permanent basis, and that this output would give him control of the international sugar market. This folly became apparent during the 1970 harvest, which produced a mere 8.1 million tonnes at the cost of bringing the entire country to a standstill to achieve it. From 1991 onwards, sugar production began to decline. It was clear that it was not a viable industry without

modern machinery, which Cuba lacked. Today, there are barely a dozen sugar mills left. The target for the most recent harvest, that of 2024/2025, was 265,000 tonnes. Actual production was only 150,000 tonnes. Cuba has started importing sugar.

The decline in sugarcane cultivation has not had the effect one might expect from its replacement by other crops. The Cuban countryside remains state-controlled, although concessions are granted to farmers who own or have usufruct rights over public land, allowing them to produce and sell their produce on the open market. Both sectors, however – public and private – have been subject since 1991 to restrictions that prevent them from improving. They have had no access to permits to purchase machinery, fertilisers, pesticides or fuel, all of which are, essentially, imported. This is an unresolved problem during this extremely long ‘special period’ that has become permanent, because there have never been sufficient foreign currency reserves to purchase the essentials. To such an extent that today food imports constitute the largest category of the ever-limited imports.

As an aside, it is worth noting that the current price of sugar on the international market is around 15 US cents per pound. Since 1970, with the exception of the years 1974 to 1976, the price of sugar has been around 21 cents per pound. More than fifty years later.

In the primary sector, the only **areas** that have been successful are **nickel and cobalt mining**, along with small-scale production of zinc, gold, silver, chromium and iron. Cuba’s nickel and cobalt mines are operated by the Canadian company Sherrit, which exports the ore for processing at its plants in Canada. Nickel and cobalt are Cuba’s leading export commodities.

Cuba now produces **oil and natural gas in quantities insufficient** to meet its domestic demand. In 2025, 40,000 barrels per day of crude oil equivalent () were produced. This is a heavy oil with a high sulphur content, which makes it difficult to refine; it is used solely for electricity generation in the country’s thermal power stations. Cuba’s requirements are in the region of 100,000 barrels a day.

Industry

Cuba's industrial sector in 1991 was in a state of disarray, as its performance was, and continues to be, increasingly poor due to a lack of investment. Loans from the USSR modernised a significant part of the basic industry; although it must be remembered once again that these loans came to an end in 1989 and that, until 2014, there was not even a refinancing agreement. The basic industry has, and had, seven power stations, most of which were built in the 1950s, 1960s, 1970s and 1980s. Six cement plants, the most recent of which date from the 1970s, are capable of producing 1.5 million tonnes – the same today as in 1991; currently, a single modern, medium-sized plant produces that same 1.5 million tonnes. It has four refineries, one of which dates from before 1960, with a refining capacity of 120,000 barrels per day. A steel industry comprising a single steel production plant, which was modernised in 2023 with an investment of 100 million dollars, funded by a loan from Putin's Russia. A sum that Cuban politicians regard as enormous. And a multitude of workshops and small businesses that consistently produce less than the bare minimum.

In 1991, Cuba's main industry was sugar production, as already mentioned. For decades, it has absorbed the country's meagre economic resources, despite the fact that planners – and the authors of the five-year plans of the 1980s and 1990s – knew full well that these enterprises were unprofitable. Since 1991, their number has been steadily declining, with most being cannibalised to sustain the few that remain today. This is a problem common to all planned socialist economies, which are able to identify the least efficient sectors but are incapable of driving the development of other industrial sectors due to the lack of a market-based pricing system. **The impetus for new industries has always been political in nature.** Fidel Castro's visionary projects are legion, amply demonstrating that he was an arrogant fool and that all his projects, after draining Cuba's scarce economic resources, have ultimately come to nothing.

On the whole, the industrial sector is very outdated, inefficient, small in scale and characterised by a disproportionate consumption of electricity and fuel.

In 1991, **the construction sector**, like every other sector, suffered from a lack of machinery and the necessary supplies. Official statistics show that almost 2 million homes were built between 1959 and 2024. This figure is an exaggeration and classifies as 'homes' the conversion of any structure to which it has been possible to add a roof, walls and a floor. During the 66 years that the Castro regime has lasted so far, the population has risen from 6,500,000 in 1959 to the current 9 million, having previously stood at almost 11 million. The vast majority of the homes in which Cubans live are those abandoned or confiscated from Cubans who have left the country. The scarce reliable data available suggests that, up until 1990, 22,000 homes were built each year, with this figure falling substantially between 1991 and 2000, before rising again to 20,000 per year from that date until 2020, after which construction has once again stagnated.

The service sector

By 1991, **the service sector had absorbed all the labour that had not found employment in agriculture or industry**. Unemployment in Cuba was impossible—, both theoretically and ideologically. Once again, by decision of Fidel Castro, an army had been created to operate worldwide, and the number of doctors, nurses and teachers had been increased with the same objective. From 1991 onwards, the size of the army had to be reduced, but the education sector was maintained as a potential source of convertible foreign currency. We do not know the number of people who make up the security services. We do know that repression has never had any difficulty in financing itself because a regime of terror requires many operatives and many assistants.

Foreign debt

Another poisoned legacy facing Cuba during the 'permanent special period' of 1991 was **its external debt**, incurred both in

convertible currencies with market-economy countries and in roubles – which were apparently also convertible into dollars.

In April 1986, as we had anticipated, Cuba suspended payments in convertible currency. Negotiations to resolve the crisis would drag on until 2015. In that year, capitalising on the momentum of Barack Obama's policy of opening up towards Cuba, the Paris Club – comprising 13 of the largest market-economy countries – reached an agreement on a foreign debt of 12,500 million dollars, as the principal of the debt – around 4,500 million – had to be increased by the interest accrued over more than 30 years of non-payment.

What Fidel Castro did not expect was that first the USSR, and later the Russian Federation, would demand repayment of the principal of the trade debt that had accumulated up to that year (loans granted in addition to the enormous subsidies received by the Castro regime for acting as the implementing arm of Soviet expansionist delusions). **The debt at the end of 2014, without distinguishing between principal and interest, totalled 35,000 million dollars that year.**

Cuba's external debt to other countries such as Japan, China and others, added to that owed to the Russian Federation and the Paris Club, totalled 54,000 million dollars, of which at least 8,500 million was interest on defaults from those years.

Putin's Russia had reached an agreement with Cuba in 2014 under which 90 per cent of the debt was written off. The remaining \$3.5 billion was to be paid off over 10 years, with the money being invested in Cuba itself in Russian-Cuban joint ventures. This has, to some extent, been carried out.

Agreements were also reached with the so-called London Club, which brought together private banks and supplier companies with outstanding debt. China had reached a debt write-off agreement for 600 million in 2011, and Mexico had written off a further 300 million in 2013.

The outstanding debt, following debt relief from all creditor countries, stood at 15,000 million dollars in 2015. The Castro government had committed to repaying this in instalments up to 2034 and beyond. In reality, apart from token payments, nothing has been paid.

To understand the scale of the \$54,000 million external debt, it must be compared with Cuba's GDP. In 1991, this stood at \$24,000 million at current prices. By 1993, GDP had fallen to \$17.3 billion at current prices. This meant that the debt accumulated from 1959 to 1991 – the \$54 billion – amounted to 225 per cent of 1991's GDP and 312 per cent of 1993's GDP.

This enormous level of debt meant that, until 2015, Cuba was unable to secure financing to cover its balance of payments deficits, apart from the subsidies and payments it received from Chávez's Venezuela from 2000 onwards – which we shall examine later – and from tourism and remittances from emigrants, the total income from which served to stabilise the economy. Never to invest or improve it.

The public deficit

The IMF has estimated that the public deficit in 1990 stood at 10 per cent of GDP and that by 1993 it had reached 30 per cent of GDP. The entire public deficit was monetised (just as it is now) by printing legal tender banknotes in Cuba, which, in turn, produced (as it does now) rampant inflation that affected the exchange rate of the Cuban peso, disrupting and confusing the prices used internally to draw up the relevant economic plans. Apart from eroding Cubans' standard of living, as the burden of inflation has always been borne through wage and pension increases that were far lower than the rise in prices of the goods and services they had to purchase from the 'State Enterprise Cuba'.

The situation was so desperate that Cuba had to allow the Cuban convertible peso and the US dollar to circulate until 2021, when a new Cuban peso was once again authorised in place of the convertible peso and the US dollar, establishing an **official exchange rate of 1 new peso to 24 convertible pesos.**

IV.
THE MONSTER DISAPPEARS. IT IS REPLACED BY THE
SOVIET BUREAUCRAT

In 2013, Raúl Castro temporarily replaced Fidel Castro – who died in 2015 – and remained Cuba’s new president until 2020. From 1970 onwards, Raúl Castro, the Minister of the Interior under the Castro regime, had been replacing Fidel in the bureaucratic management of the Castroist economy. All the while remaining the enforcer of terror.

When he succeeded his brother in 2013, his calling card was a commitment to seriousness, with no further foreign adventures. A commitment he also failed to honour by strengthening ties with Maduro. President Obama, during his second term, supported the supposed seriousness of the new Cuban dictator. Years earlier, under the Bush presidency, the embargo on food and medicines had been lifted. Under Obama, transfers of funds to family members in Cuba were permitted without restrictions, and travel to Cuba was even liberalised.

On the international stage, Obama supported European governments adopting a policy of appeasement towards the Castro regime. Thus, in 2015, an agreement was reached regarding Cuba’s external debt with the member countries of the Paris Club and private creditors in the London Club, to which we have already referred.

This policy of economic openness towards Raúl Castro’s Cuba is followed by political openness, as if Cuba were no longer a regime of terror. Pope Francis’s pontificate is no stranger to this. In Spain, it is Rajoy’s government that is proposing a foreign policy much more in line with Castroism. It is no coincidence that Spain is the main creditor of Cuba’s external debt within the European Union. Rajoy’s shift also extends to the political sphere. His government has targeted the Hispano-Cuban Foundation, which for 20 years had brought together the majority of anti-Castro democratic parties and which eventually ceased to exist whilst Guillermo Gortázar was president and Javier Martínez-Corbalán was director-general – the latter having, for years, aided the Cuban dissident movement within Cuba at great personal risk.

From its inception in 1996, the Hispano-Cuban Foundation included both Spanish and Cuban leaders and collaborators. These included Cubans in exile such as Carlos Alberto Montaner, Jorge Mas Canosa (leader of the Cuban-American National Foundation), Lincoln Díaz Balart, Jorge Sanguinetti, Raúl Rivero, Fernando Vega Penichet and Leopoldo Cifuentes, amongst others. Among the Cubans who risked participating whilst living in Cuba were Osvaldo Payá (who died in an unexplained accident), Gustavo Arcos, Vladimiro Roca, Félix Bonne, René Gómez Manzano, Elizardo Sánchez and Marta Beatriz Roque.

Raúl Castro's main contribution to the survival of the Castro regime has been the reduction in the size of the Cuban state enterprise, particularly in the agricultural sector, by allowing private farmers to use state-owned land and by authorising any Cubans who so wished to leave the country.

What Raúl Castro has never renounced is the policy of terror and the application of increasingly harsh legislation against dissent, nor has he relinquished control over Cubans' private property – the most important ideological principle of the Castro regime – for, although there are 650,000 'bank account holders', their growth and the activities they can undertake are restricted.

In 1993, the most urgent reforms began, expanding on some that had already been in place since the 1980s. **Some agricultural markets were legalised**, where certain products could be sold at free-market prices. That same year, **self-employment** was legalised, even allowing the hiring of a limited number of other workers. Another reform (temporary, of course) was **the authorisation to hold convertible foreign currency** in personal accounts and to receive convertible foreign currency from abroad, which came to an end in 2021. In 1995, official markets were created where convertible foreign currency could be bought and sold at prices close to those on the black market until 2021.

It is not worth analysing the evolution of GDP from 1989 to 2026. The jumble of prices existing at any given time, ranging from those in the five-year plans—which listed 1,000,000 official prices across 200 collections held by official bodies (which were never consulted)—to price fluctuations, some affected by inflation and others not, has permanently disrupted economic activity.

Exports and imports since 1991

It seems to me that **the only possible way** to analyse how the Cuban economy has evolved since 1989 **is to look at how exports and imports of goods and services have fared.** These are, in this case, figures known to international organisations and to the credit agencies of countries that trade with Cuba, expressed in dollars.

Exports. 'Oil for services'

Let us begin with exports. In 1989, exports totalled 5,400 million dollars. By 1993, they had fallen to 1,200 million dollars a year.

That year, sales were almost the same as in 1958: a small amount of sugar (compared with the large quantities sold in 1959, when over 400 million was exported to the United States), nickel and cobalt, tobacco and some pharmaceutical products.

Between 2000 and February 2026, an agreement with Venezuela, known as 'Oil for Services', was in force, which enabled Cuba to receive payments from Venezuela **totalling 63,000 million dollars** from 2000 to 2025; these appear in the statistics as exports of services from Cuba to Venezuela, (data from the 'Miranda Centre for Democracy' contained in the report 'Oil for Repression', presented at Florida International University and corroborated by the US Government). An average of 2,520 million dollars per year over those 25 years. This amount exceeds the average value of all Cuba's exports of goods during the same period.

The figure for exports of goods has also risen because Cuba began exporting its own low-quality oil whilst refining that from Venezuela or reselling Venezuelan oil at market prices. The services Cuba has provided to Venezuela consist of organisational and personnel support to ensure security services, the functioning of the army, and the personal services of doctors, nurses, teachers and lecturers who replaced the Venezuelan professionals who had left their country.

As we shall see later, Venezuela has paid those 63,000 million dollars in Venezuelan oil sold at prices below international market rates, thereby also subsidising Castro's Cuba.

Tourism

Among service exports, the next most significant item consists of **payments received from Venezuela**, as already mentioned. Revenue from other services, which continued to grow until, once again, the year 2020, was **generated by tourism**. In 1989, revenue stood at 200 million dollars. In 1991, revenue reached 400 million, with around 400,000 visitors. Despite its reluctance towards the presence of foreigners and exploitative capitalists, the Cuban government permits capital investment, which has resulted in the construction and refurbishment of 336 hotels with a total of 83,000 rooms. Revenue rose to 1,000 million in 1995 and continued to increase in subsequent years, reaching 2,000 million in 2000 and remaining at similar levels until 2019. In 2020, the pandemic reduced revenue to 900 million dollars, but it has since recovered to reach 1,600 million in 2024. **A very rough estimate puts gross tourism revenue at 75,000 million from 1991 to 2024. Net revenue is unclear**, as limitations in agriculture and industry mean that many of the goods required for tourism services have to be imported.

Imports

Imports and the size of the balance of payments deficit are what determine the economy's potential for growth. In a country with such inefficient productive sectors, imports are not only decisive factors in economic growth or recession, but are also essential for ensuring a minimum level of provision under the rationing system, the functioning of industry, and the essential inputs for the agricultural sector.

The breakdown of Cuba's imports is bleak. The most significant are purchases of food and medicines – which have been made primarily from the United States since Bush lifted the embargo on those sectors. Next come oil and all kinds of refined products that Cuba does not produce, or could produce only at an exorbitant cost. Following these are fertilisers, pesticides and consumer goods. , only minimal quantities of capital goods are imported. It should be remembered that from 1986 until the 2015 agreements on external debt, Cuba was

unable to secure long-term loans, which are the only means of financing the purchase of capital goods. In any case, from that year onwards there has been no scope for importing capital goods either.

The trend in import figures provides a clearer picture of the economic landscape. In 1989, Cuba imported 8,100 million dollars, with the USSR being the main supplier, primarily of oil. By 1993, the crisis had reduced imports to \$2,000 million. Subsequently, with the support of tourism – and remittances from Cubans abroad, which we shall analyse later – imports rose to \$5,200 million in 2000. As we have seen, support from Venezuela enabled imports to grow to 7,000 million in 2005, 11,700 million in 2015, and a total of 12,300 million in 2018. The 2020 pandemic forced a reduction in imports to 7,300 million that year, with a subsequent recovery to 10,000 million in 2023, followed by a further decline to 8,000 million in 2024. These figures will be examined later using official data from the Cuban government.

V.

EXTERNAL DEBT, PAYMENT SUSPENSIONS AND GAESA.

There is a lack of precise information on at least two items in the balance of payments for services: freight charges and the financial costs of external debt and the countless very short-term credit agreements. **External debt had continued to grow and stood at around 20,000 million dollars in 2020.** In 2021, Cuba once again suspended its debt repayments. This default further downgraded Cuba's credit rating, and since then it has only been able to secure short-term commercial loans with minimal guarantees. In 2021, a new debt refinancing agreement was reached, but it was immediately breached. This suspension of payments was renegotiated, and a new agreement was reached in 2025 with the Paris Club. The debt owed to Paris Club member countries stood at approximately \$5,000 million, of which some \$2,400 million was owed to Spain. **No interest or principal payments have been made on Cuba's external debts since 2021.**

Remittances from Cubans abroad

But that is not the end of the story. The current account balance of payments includes both the balance of payments for goods and services and that resulting from **payments transferred by emigrants living abroad**, which are referred to as remittances in accounting jargon.

Remittances from Cubans living abroad are more significant than revenue from tourism. Cubans who fled as best they could from 1959 onwards and were at the centre of events such as the Mariel exodus in 1980 and the rafters' exodus in 1994 have gone from being labelled 'worms' as labelled by the Castro regime to being actively encouraged to leave their country in order to reduce expenditure on their ration cards, in the hope that they will send foreign currency to support their families in Cuba. The Castro regime has shifted from exercising maximum control over the emigration of its citizens—on the grounds that Cuba could not afford to let its best professionals leave, as was the case between 1970 and 1989—to allowing them to leave freely since 2013, a decision taken by Raúl Castro whilst Fidel was on his deathbed. They have gone from losing their homes to Raúl's Castro regime – not Fidel's – allowing them to keep them, even if they do not live in Cuba.

In figures, **remittances stood at 200 million** in 1993, growing year on year until they reached 843 million in 2000. In the years that followed, they continued to grow, reaching 1,300 million in 2005. Peak figures were recorded between 2015 and 2018 – also as a result of US government authorisations – with **figures of 3,354 million in 2015 and 3,700 million in 2018. In 2020, the pandemic also affected remittances, which fell to 2,300 million** and have stood at around 2,000 million annually ever since.

All these transfers amount to around 50,000 million dollars from 1993 to 2025. Cuban democratic organisations estimate **the value of shipments of consumer goods and medicines over the same period at a further 50,000 million. In total, more than 100,000 million dollars.** Those 50,000 million worth of goods, which do not appear on any balance sheet, are, quite simply, the income that has enabled the families who have received them to survive much better than those who have not.

For Cubans living abroad who support their families, the costs of these transfers are even higher. Money transfers incur exorbitant financial charges. Transfers of goods, whether sent from abroad or delivered in person, are exempt up to 30 kilos. Above 300 dollars, a 100 per cent duty is payable, and up to an authorised maximum of 1,000 dollars, the duty rises to 200 per cent.

The Grupo de Administración Empresarial S.A. (GAESA)

But what is GAESA? The following paragraphs summarise the study entitled 'GAESA: The Thieving State', published by Cuba Siglo XXI and authored by Emilio Morales:

"Under the guise of socialism, a military oligarchy controls (or, at any rate, has been controlling for the past few years) more than 70 per cent of the economy and 95 per cent of the national finances, whilst the civilian government acts as a mere puppet. Miguel Díaz Canel's government has, in practice, no control over the country's finances. The Central Bank of Cuba... is completely subordinate to and subject to the interests of GAESA... if one were to identify the main party responsible for the inflationary debacle plaguing the country, all the evidence would undoubtedly point to GAESA. The opportunism and control that this entity exercises over the country's finances and economy prevent the implementation of reforms that ... would transform the economic model and pull the country out of the crisis ... in which it finds itself mired ... Measures such as the creation of shops that accept freely convertible currencies, the implementation of the regulation known as the Monetary Reorganisation Programme, the ban on depositing physical dollars into the country's bank accounts, and the launch of the new foreign exchange market triggered, upon their introduction, an inflationary spiral which the government is now unable to halt... Likewise, the appalling management of investments... carried out to suit the convenience and lucrative interests of the GAESA oligarchs, has been another major factor in the country's inflationary crisis. This has left the State itself without resources, as it has watched its most iconic industries and sectors crumble in recent years... due to a lack of financial resources and the absence of an investment policy

consistent with the country's true needs and strategic priorities. To this fact, which demonstrates the Cuban government's subservience to GAESA... must be added the lack of transparency and the absence of institutional mechanisms to monitor and oversee GAESA's operations."

In addition to all this, GAESA has been controlling a large proportion of the country's foreign currency finances; its revenues have exceeded those of the state budget, operating in parallel with the state and paying virtually no taxes; and, even more strikingly, it has been reported that GAESA holds international assets in its own accounts, outside the control of the Central Bank of Cuba and at the disposal of the Castro-led military commanders who control the company.

The data on remittances comes from a wide range of sources: The Havana Consulting Group, "Cuba Siglo XXI", and international organisations such as ECLAC (Economic Commission for Latin America and the Caribbean) and the IOM (International Organisation for Migration).

The Cuban government was forced to intervene in 2025 to encourage the flow of dollars into Cuba by authorising payments through new intermediaries. The reason for these new interventions relates to the ban imposed by the United States on transactions under Cuban military control.

The large sums from 1991 to 2024

The total value of all imports of goods and services during those years amounts **to approximately 267,000 million dollars**. These purchases have been financed by **revenue from exports** of goods and services (commodities, tourism and the sale of specialised services such as those provided to Venezuela), which have reached **185,000 million dollars**. **The deficit, therefore, has been 82,000 million dollars**. This has been covered, in part, by **the 50,000 million dollars in remittances from emigrants**. The remainder, around 32,000 million, accounts for the growth in external debt, which has once again risen following the pandemic crisis. Exports

of 'services' to Venezuela during this period amounted to \$63,000 million.

Without the agreements with Venezuela, the accumulated deficit would not be 32,000 million, but 95,000 million. It is therefore almost impossible for the Castro regime to function without Venezuela, even if Cuba were to obtain oil from Russia or any other country willing to sell it.

VI.

THE LIMITS TO GROWTH IN CASTRO'S CUBA (1959–2026).

All countries with uncontrolled public deficits suffer economic crises that must be resolved. These deficits—these negative differences between public revenue and expenditure—must be paid for in some way. Those unable to borrow through bank financing or other forms of domestic financing must resort to financing that deficit from abroad: **the public deficit becomes debt, whether domestic or external.**

If the country in question has no source of funding, either domestically or from abroad, it has no choice but **to monetise that debt**, for which it turns to its central bank to print all the banknotes needed to cover the deficit. The increase in the money supply leads to rising prices in the country. In this case, the deficit turns into inflation, which significantly reduces the standard of living.

Until 1959, **Cuba had a public budget to finance the State.** Its revenue consisted of taxes, duties, tariffs and some extraordinary returns on its investments. Its expenditure covered the wages and salaries of the entire civil service, other costs associated with running the civil service, as well as those arising from maintaining public assets in working order, such as the national electricity supply network or the maintenance and construction of roads, ports, airports and other infrastructure. It also had to pay interest on its public debt and the principal if that debt was due at the time.

When Castro nationalised and expropriated, in various phases, all existing enterprises in the country – and even all the homes and properties of those he allowed to leave the country – **the calculation of the potential public deficit changed radically.**

Public revenue is no longer derived primarily from taxes, duties and tariffs. It now consists of the total sales of all companies in Cuba – because they are all state-owned – sales made domestically to Cuban residents and abroad in the case of exports.

Public expenditure comprises the costs of maintenance, construction or investment, both by the government itself and by all state-owned enterprises – those in the agricultural sector, mining, industry and services. And, of course, the wages of all Cuban workers. And the pensions of all pensioners. And the interest and principal on all the debts of the government and all enterprises.

Public deficits were inevitable. At least in the early years. After that, it would depend on how the enormous ‘State-Owned Enterprise Cuba’ – into which the whole of Cuba had been transformed – was managed.

Public deficits appeared at breakneck speed, thanks to Fidel Castro.

Firstly, faced with a shortage of food for the entire population, it was decided **in 1962** that every Cuban should be issued **with a ration card**. At subsidised prices. The first major extraordinary expenditure. It was specified that this was a temporary measure.

Other extraordinary expenditures. Fidel Castro decided that **1961 would be the ‘Year of Literacy’**, so that the 23 per cent of the population who could neither read nor write might learn. What was extraordinary was that normal work activities across the entire economy were halted. Much less was produced. **More public deficit.**

In 1968, absolutely all businesses and all services previously provided directly by private individuals were nationalised. Domestic production fell. **And the public deficit rose.**

In 1969, it was decided that Cuba would produce 10 million tonnes of sugar. All productive activities came to a standstill. The administration ground to a halt. Everyone took part. Whether they achieved 10 million or 8 million tonnes was irrelevant. What was damaging for the Cuban state-owned enterprise was that there was a huge decline in national production. **The public deficit grew.**

As far as agriculture is concerned, it is logical that Fidel Castro, an uneducated and arrogant man, was incapable of replacing **the management of the 161 owners of the sugar mills. More deficit.**

As far as **industrial activities** are concerned, it is impossible for them to produce the same quantity and quality of all kinds of products, because, to begin with, both the sugar mills and the industrial factories use American technology and require spare parts from the United States. This was not possible, because everything had been expropriated without compensation and the United States had imposed an embargo on all trade with Cuba. And, unfortunately, that stupid genius, Fidel Castro, was unable to replace the 600,000 businesspeople, professionals and managers from all industries who have left Cuba. Much to the satisfaction of Fidel Castro, who believes that all owners are exploiters. **More public deficit.**

As for the revenue of the 'Cuba State Enterprise', there are also developments that are reducing its income. **The 5 or 6 million tonnes of sugar** that were previously sold to the United States at prices well above market rates came to be sold, initially, at market rates or below, because it is not so easy to convince potential buyers to switch suppliers. **More public deficit.** Until the USSR stepped in with subsidies.

Furthermore, the bulk of exports prior to 1959 were sold to the United States. **Transport and freight costs** were very low. It is a different matter to sell to the USSR, Canada or European countries such as Spain. **Higher expenditure and a larger deficit.**

Nor had **the cost** been calculated **of providing real or fictitious jobs to all Cubans** who had previously worked in sectors banned in 1959, such as tourism and gambling. And all the unemployed were placed in agricultural, industrial or service companies, or within the civil service itself. **More public deficit.**

It is possible that **revolutionary fervour** might have led all employees of the great 'State Enterprise Cuba' to work longer hours and with greater intensity, but without raw materials, without spare parts, and without sound business management (except for Fidel Castro, of course), net losses multiplied. **More public deficit.**

The rise in the public deficit, which is addressed by printing banknotes from the National Bank of Cuba, leads to inflation and another phenomenon: the devaluation of the Cuban currency. In just three years, the exchange rate of the Cuban peso goes from 1 peso to 1 dollar to **3 Cuban pesos to 1 dollar.**

The Balance of Payments

But when it comes to foreign trade, which is recorded in the balance of payments for goods and services, **a new deficit** arises. **Revenue** from sugar sales **declines**, and sales of agricultural products that were previously sold in the United States disappear. And revenue from foreign tourism also disappears because Fidel Castro does not like tourists.

A balance of payments deficit arises, which cannot be monetised. To cover this deficit, a country or company outside Cuba must grant loans. This is what the USSR has been doing since 1960. **Such loans constitute external debt**, which must be repaid within the established timeframes (in theory, of course).

With an economy such as the one Fidel Castro has sought to create, balance of payments deficits – external deficits – are inevitable. It would prove impossible for Cuba to generate new exports with an agricultural and industrial sector such as the one described above. In fact, Cuba's exports in 2026 are the same as in 1958, except that it no longer exports sugar because it does not even have enough to meet its domestic needs.

Restrictions on imports. Investment

And the inevitable happens: imports are restricted to just oil, food, medicines, fertilisers and pesticides, and essential consumer goods. And for a few years, until 1986 and 1989, capital goods. But there is never enough foreign currency to modernise industrial plants or to increase agricultural production. **What disappears is investment.**

The USSR went so far as to buy all the sugar that Cuba was able to export at above-market prices and to sell Cuba oil, food and industrial goods at below-market prices. However, apart from raw materials, the other products supplied by the USSR were not the most suitable for Cuban industry.

Furthermore, as we have seen, the USSR granted the foreign loans necessary to cover the external deficit arising from trade

with Cuba, which became Cuba's external debt that the USSR demanded repayment of from 1991 onwards.

What the USSR does not do is transfer convertible currency to Cuba, because **neither** the USSR nor the other COMECON members **have any to spare**. In fact, they face enormous difficulties in achieving growth because they are unable to export anything else. Today, Russia sells the same goods abroad as it did 70 years ago: oil, gas, gold and diamonds, which provide the foreign-exchange earnings essential for making the imports needed to keep the economy functioning, albeit at a very slow pace.

What they cannot do is improve their agricultural and industrial production because they lack entrepreneurs and managers, as well as the imports needed to modernise their economy. **Above all, they lack investment.**

The reforms, some of which we have already mentioned, have been aimed at reducing the size of the 'State-Owned Cuba'.

Private ownership of a main residence and a second home is now permitted. These may be sold or transferred by gift or will to legitimate descendants. In 2008, a Land Registry was re-established, in which properties are gradually being registered.

From 1997 onwards, the Central Bank of Cuba was separated from the National Bank of Cuba, which became a commercial bank responsible for recording external debt. Furthermore, three other commercial banks were established, and in 2023, Banco Corporativo was founded. The private banking sector fulfilled its role of granting loans and accepting deposits when the monetary system was reformed in 2021.

In the agricultural sector, there are now farmers with usufruct rights who own their land – subject to area restrictions – and who grow whatever they wish – or are able to – and can sell their produce at market prices in open markets.

The reforms were – finally – accelerated with the effective departure of Fidel Castro in 2013 and his replacement by Raúl Castro. In 2013, Cubans were authorised to leave Cuba freely provided they held a visa for whichever country they were travelling to. For Raúl Castro, emigration means lower public expenditure, more available housing and more remittances from emigrants.

VII. THE CUBAN ECONOMY IN THE PERIOD 2019–2025

I have tried to ascertain the most important macroeconomic figures for Cuba in 2019, the last year before the onset of the major crisis in the Cuban economy, which began in 2020 with the pandemic, which hit Cuba just as it did the rest of the world. It has proved impossible.

In that year, the official figures showed a GDP of over 100,000 million dollars (according to the World Bank). This was the result of converting Cuban pesos at exchange rates ranging from the official rate of 1:1 to other, unknown rates.

Following the currency unification, to which I refer below, and with retroactive effect, the figure for that year had fallen to 60,000 million dollars. This was the result of applying a rate that is officially 1 dollar to 24 Cuban pesos. An equally implausible figure.

During 2020, four different currencies were in circulation in Cuba: the Cuban peso, which was used to pay wages and pensions; **the peso convertible into US dollars**, at an exchange rate of 1 US dollar to 24 pesos; **the US dollar**; and **current accounts in convertible pesos**, which were held solely as deposits that could be used to pay for imports. The situation is made even more complex by the fact that state-owned enterprises' accounts are kept in ordinary Cuban pesos, with the exception that, for companies with the relevant authorisation, an exchange rate of 1 US dollar to 1 peso applies, allowing them to pay for imports at this ridiculously favourable rate until at least 2021.

In 2021, the Cuban economy was put on a single currency footing. Everything is accounted for in Cuban pesos, which are converted at the official exchange rate of 1 US dollar to 24 Cuban pesos. Holders of accounts in convertible pesos, US dollars or convertible peso deposits were given a six-month deadline to convert all their accounts into Cuban pesos at the official exchange rate.

The pandemic crisis

In 2020, the pandemic crisis began, a crisis which, for Cuba, was similar to that of 1991 to 1993.

The 2020 crisis affected Cuba more severely than other countries. The external accounts, whilst still in deficit, were in a state of relative equilibrium. That equilibrium was disrupted by the decline in tourism. Remittances from Cubans abroad also fell. Exports of goods also suffered. All of this led to a wider public deficit and, more importantly, to an external deficit from which Cuba has been unable to recover.

As in previous periods, the damage caused by import restrictions affects domestic production of goods and services. Inflation and external debt soar, and the Cuban peso is immediately devalued; domestic prices are adjusted unevenly, with wages and pensions rising at a slower rate than other prices in the economy. Ultimately, this imbalance is intended to reduce the public deficit and imports. This, of course, has a severe impact on the standard of living and real per capita income.

We must not forget that in 1958, one Cuban peso was freely exchangeable for one US dollar. The latest official figure of 455 pesos to the dollar illustrates better than anything else the deterioration of an economy with no prospect of recovery.

Whatever the nominal GDP in US dollars for 2020 may be, there are relevant official figures for the key indicators that explain the situation up to 2024 or 2025.

GDP in 2020 fell by 11 per cent; between 2021 and 2023 it stabilises, before falling sharply again in 2024 and 2025. **The Castro government estimated a GDP of 90,000 million dollars for 2024, applying the official exchange rate of 1 dollar to 24 pesos. In 2022, the exchange rate was set at 120 pesos to the dollar. In December 2025, the official exchange rate was adjusted and set at one dollar to 455 Cuban pesos.** It is clear that such a devaluation could not have taken place in just four years. However, **the informal exchange rate** at that time was even worse, standing at one dollar to 510 Cuban pesos.

Using this official exchange rate, ECLAC (Economic Commission for Latin America and the Caribbean) has calculated that Cuba's GDP in 2024 dollars stands at just 12,924 million dollars.

Public deficits and the balance of payments.

The Castro government puts the public deficit for 2020 at 17.7 per cent of GDP; for 2021 at 11.7 per cent of that year’s GDP; for 2022 at 11.1 per cent of GDP; for 2023 at 20 per cent of GDP; and for 2024 at 6.5 per cent of that year’s GDP. Whatever the annual GDP figures may be, whether in pesos or dollars.

Cuba’s trade balance for the years 2020 to 2025, based on official Cuban figures (National Office of Statistics and Information) and estimates from international organisations, is as follows:

	<i>Exports of goods</i>	<i>Imports of goods</i>	<i>Trade balance</i>
2020	1,685	8,933	-7,248
2021	1,886	10,397	-8,511
2022	1,889	12,003	-10,104
2023	1,583	8,973	-7,390
2024	1,474	8,986	-7,512
2025	1,500 (approx.)	<9,000	-7,500

In millions of US dollars

The balance of services, according to official Cuban data for those years, shows the following results:

	<i>Balance</i>
2020	+ 5,469
2021	+ 6,231
2022	+ 5,840
2023	+ 6,299
2024	no data

In millions of US dollars

The Balance of Payments for Goods and Services under the Current Account shows the following (official) figures:

	<i>Goods and Services</i>	<i>Remittances</i>	<i>Balance</i>
2020	-1,779	+ 1,703	- 76
2021	-2,280	+ 1,084	- 1,196
2022	- 4,264	+ 2,040	- 2,224
2023	- 1,091	+ 1,972	+ 881
2024	- 1,500 (approx)	+ 1,113	- 382

In millions of US dollars

The Balance of Payments for Services includes revenue from tourism and payments from Venezuela, and, naturally, from other countries that purchased Cuba's military and security services. This official Cuban data has not been verified by international organisations.

The figures for remittances from Cubans abroad shown in the current account balance are much lower than those obtained by other, far more reliable official bodies. The discrepancies are undoubtedly attributable to GAESA.

Even if we accept all this information at face value, the Balance of Payments for Goods and Services would consistently show deficits due to remittances from emigrants, despite the adjustments made by the Castro government during those years to ration cards and the modest increase in wages and pensions relative to the rise in other prices.

Public deficits on the scale of those we have seen above have been partly monetised and partly covered by issues of government bonds which Cuban banks have been obliged to purchase, a process which merely delays monetisation.

The pandemic crisis and the exhaustion of a productive system in which there has been almost no investment since 1991 have resulted in the public deficits we saw earlier.

Returning to the question of **what Cuba's true GDP is in US dollars**, the adjustment made by ECLAC seems excessive. However, there is insufficient data to calculate it in any other way.

Just as public deficits have turned into inflation, balance of payments deficits have not disappeared; rather, they have been transformed into external debt denominated in convertible currency. In

2020, external debt stood at 18,900 million dollars; in 2021 – with payments to the Paris Club suspended – it stood at 19,700 million; in 2022 it was 20,500 million; in 2023 it reached 23,000 million; in 2024 it reached 25,000 million; and in 2026 it has reached 28,000 million.

The 28,000 million in external debt in 2025, compared with a GDP in dollars for that year (at an exchange rate of 455 pesos to 1 dollar) of 12,924 million dollars, brings **external debt up to 216 per cent of GDP in 2025**.

Per capita income

As regards **per capita income**, the calculation varies significantly depending on whether GDP is higher or lower than the 12,924 million used in ECLAC's calculation.

All that remains to be determined is Cuba's population. But here we encounter another statistical discrepancy. The Castro government has maintained, until recently, that Cuba has a population of almost 11 million. In reality, according to demographic experts, the actual figure could be between 9 and 8.5 million. The government has finally acknowledged that Cuba's population at the end of 2024 stood at 9,748,000.

If we take into account that, apparently, between 200,000 and 250,000 people are leaving Cuba each year from 2020 to 2025, the population could in fact be lower than that figure, at around 9 million. On this basis, a GDP of 12,924 million would result in a per capita income of 1,380 dollars. If GDP had been, for example, 28,000 million, per capita income would have stood at 3,111 dollars.

Another way of analysing per capita income is to examine how the quantities and prices of the products included **in the ration book** have changed. The ration book – 'la libreta', as Cubans call it – still features subsidised prices, but quantities have been reduced, and essential products such as meat and eggs have disappeared from it. In response to protests by Cubans over inflation and changes to the ration cards, decisions have once again been taken that break with the 2021 policy of monetary transparency. **Consequently, maximum prices have been capped for the most important foodstuffs in both official and free agricultural markets.**

From 2020 to 2025, Cuba's GDP, according to official statistics and those of ECLAC, has fallen by between 15% and 20% in real terms. GDP since 2020, in current pesos, has continued to grow, however, because **inflation has stood at around 30% per annum**.

In 2024, the Cuban government's National Office of Statistics and Information (ONEI) reported that the GDP for that year in constant terms (excluding inflation) stood at 50,693 million Cuban pesos. That year, the official exchange rate was 120 pesos to 1 US dollar.

We do not yet have official figures for 2025. However, a real fall of 5 per cent in GDP has been reported. On that basis, Cuba's official GDP would have been 47,500 million constant pesos. But in December 2025, the government had to adjust the official exchange rate to 455 pesos to the US dollar. Obviously, at the unofficial exchange rate for March 2026, which now stands at 515 pesos to 1 US dollar, both GDP and per capita income are even lower.

For anyone who wants to know more about Cuba's per capita income, I recommend Leonardo Padura's book, *Death in the Sand*. It is a novel that weaves in the history of the Castro regime. A drama centring on three families and a few friends during the years of the Castro regime. There is not a single reference to Cuba's domestic or foreign policy, nor to its economic policy, political repression or dissidents. It merely recounts the hardships faced by these three families, whose grandparents were socialists or Castro supporters, but whose parents eke out a meagre living as doctors, teachers, writers, civil servants or santeros. What they do, however, is describe how Fidel Castro's major decisions – whom, I believe, is mentioned only once – have affected them since the revolutionary offensive of 1968, with the nationalisation of even the smallest general stores, the '10-million-tonne sugar harvest', the war in Angola, the alliance with the communist countries of Europe, the exodus of Cubans, and the break with Gorbachev. *De Mariel* recounts how every Cuban who wanted to leave – having paid an unimaginable sum – was forced to take four criminals or mentally unstable individuals aboard their boat. All of Fidel Castro's major decisions are described as absurd and harmful. Two of the families survive thanks to remittances from their daughters – one lives in Florida and the other in Barcelona. The third lives in abundance because their son is a *santero* who predicts the future and thereby makes a fortune.

The education system is not spared either, where only those loyal to the regime succeed. The only praise Leonardo Padura offers for the Castro regime is the elimination of racism. His example is a black man, a friend of the families, who is a nuclear physicist but now ekes out a living as a gardener for the fortune-teller's family. Most members of these families and their friends find solace for their sorrows only in love, sex when they can find it, and alcohol, when they can get hold of it.

VIII. THE AGONY OF THE CASTRO REGIME

A country with the figures we have seen since 2020 regarding public deficits, inflation, the balance of payments deficit, external debt, GDP and per capita income is a country in its death throes which, moreover, is losing more than 200,000 people a year – now predominantly people aged between 20 and 40, with vocational or university qualifications, which further complicates the future of the economy.

Maduro's abduction means the end of the agreement with Venezuela, which has brought in an average of 2,520 million a year, although the figures have probably been higher than the average in recent years.

With Cuba's balance of payments down by 2,520 million dollars a year, this means that deficits – excluding remittances – would reach 4,000 million dollars a year. And the decline in tourism, a reality since 2020, has worsened significantly since Maduro's abduction, due both to the oil shortage and to the power cuts and resulting insecurity. If, instead of bringing in \$2,000 million a year from tourism, the figure falls to between \$500 million and \$1,000 million, Cuba's balance of services could shift from surpluses of between \$5,000 million and \$6,000 million in 2024 to one of just \$2,500 million to \$3,000 million. The deficit in the balance of goods and services could be between 4,500 million and 5,000 million dollars a year.

It seems unlikely that anyone could finance Cuba to such an extent.

Once again, the only solution is to drastically reduce imports, which are currently essential for sustaining agricultural and industrial production. **Reducing imports from current levels will result in a famine similar to those affecting African countries.** Even if the United States allows oil imports – which Russia might be willing to take on – a decline in real GDP is already inevitable.

The only solution is the end of the Castro regime and Cuba's return to a market economy, with a constitution such as the last one of 1940, at the very least, in which it is made clear that democracy and private property are respected.

Raúl Castro's supporters believe they have made great strides in curbing the excessive power wielded by Fidel Castro until his death, but the 2019 Constitution betrays them. That latest Castro-era Constitution states that "private property, foreign joint ventures and the existence of markets are recognised" as components of the Cuban economy "under state control".

But it also states that "the Republic of Cuba declares itself to be Marxist and Leninist", "irrevocably socialist", and reaffirms that "capitalism, in which man exploits man, will never return".

And this is said by those who have exploited the Cuban people, sending them to wars they did not understand and to doctors called upon to work in almost always inhospitable conditions— — receiving poverty wages in return whilst the Castro regime earned substantial amounts of foreign currency from these tasks.

VIII.

FINAL REFLECTIONS

After 66 years of Castroism in politics and economic policy, a number of conclusions can be drawn.

1. The length of time a society has spent under a communist dictatorship affects its prospects of successfully achieving a political and economic transition to become a free society. The Castro dictatorship has now lasted 66 years. The USSR collapsed after 72 years, communism in the countries of

Eastern Europe after 45 years, and China's communist economic system after just 25 years.

Deng Xiaoping's economic reforms were introduced rapidly. They were successful largely because the habits of a market economy had not yet been lost.

The collapse of communism in Eastern Europe was more traumatic, but it was achieved without excessive problems. This was partly because those communist countries had been colonies of the USSR, annexed between 1940 and 1946. The changes in the USSR have been far more difficult. After 72 years, the habits of living in freedom, of taking risks and of being economically independent had been lost. Most people's lives had been shaped by fear, the deception of the five-year plans, the black market, theft and the power of organised crime.

In Cuba, the years that have passed could make the transition to a market economy more difficult because the customs are similar to those of the USSR, but the influence of Cubans who have left the country – now numbering over 2.5 million – and the financial support they send to their families still living in Cuba have become a constant reminder that there is a normal world where, through work, one can make a living, save money, be independent and even support one's family.

2. From 1959 to 2026, there have been annual public deficits which have led to inflation and devaluations of the Cuban peso, as well as balance of payments deficits that have caused an unstoppable rise in external debt denominated in convertible currency.
3. Between 1959 and 2015, external debt rose from 0 to 53,000 million dollars. Between 2016 and February 2026, external debt increased once again, from 15,000 million in 2015 to approximately 28,000 million dollars in 2026.

In total, from 1959 to 2026, Cuba has accumulated 66,000 million in external debt.

In terms of GDP, this represents more than 500 per cent. Castro's Cuba managed to avoid paying interest on the initial

53,000 million and made only token interest payments up to 2026. The principal of the external debt has never been repaid.

4. There have never been any savings in the Castro regime's public accounts to maintain, improve or modernise industry, agriculture and infrastructure. The few savings that do exist have been channelled into tourism, although the bulk of investment in the hotel sector has been borne by foreign investors.
5. The best evidence of the limitations of the Castro economy is to compare Cuba's exports in 1958 with those of 2025. The same volume of goods is sold abroad in both years, except that sugar has disappeared. However, even today's dollar earnings from exports of goods are similar to those of 1958.
6. Over this extremely long period, the Castro governments have never set out to improve the standard of living of their people. In fact, that standard has been deteriorating since 1959, the first year of the Castro regime, right up to the present day.

The sole objective has always been the survival of the regime and the mafia surrounding the Castro family.

It is worth recalling that both the International Monetary Fund and the World Bank have assisted the vast majority of countries around the world with soft loans and refinancing. The Castro regime has never considered this option for reform, as it would mean subjecting its management of the economy to audit and public scrutiny.

7. During the 66 years of the Castro regime, first the USSR and the communist countries of Eastern Europe propped it up for the first 32 years with subsidies and unpaid foreign loans, and subsequently the drug-trafficking regime in Venezuela did the same for a further 25 years and 2 months.

The Castro regime received no foreign aid of this kind for just nine years. And it nearly collapsed. In fact, all reforms – such as the recognition of private property and limited freedom to become independent of the state – were carried out without any real conviction.

Without Venezuela, and with restrictions on GAESA's activities in oil, tourism and remittances from Cubans, the regime's survival becomes vastly more difficult.

8. The policy allowing people to leave Cuba, introduced in 2013 by Raúl Castro, was not an act of benevolence. It was a recognition that the Castroist economy would never recover and that, consequently, the regime did not mind losing skilled labour. Cuba's population has fallen from almost 11 million in 2019 to just around 9 million in 2024.

The Castro regime has learnt from Venezuela that, even with 8 million people leaving the country and an 80 per cent reduction in oil production, the Bolivarian regime could survive.

The Venezuelan mafia, trained by the Castro regime, has shown no concern for the standard of living of those still living there. Protests by the population have so far been met with increasing political violence.

Raúl Castro and his inner circle seem determined to force a further 2 or 3 million inhabitants to leave Cuba, in the hope that, together with those already living abroad, they will be able to fund the pensions of an ageing population through remittances. This is on the assumption that the national GDP will continue to decline.

For all these reasons, it is a humanitarian duty to support the United States' policy aimed at bringing the Castro regime to its knees. DOWN WITH CASTRIST CUBA!

CONFLICT OF INTEREST

The author declares that he has no conflict of interest.

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(8) Data from ONEI and reports by the World Bank and “Tourism Analytics”, which updates data on tourism in Cuba in its “Cuba Tourism Statistics” section. The original data always comes from ONEI.

(9) Data from ONEI, the World Bank and the report by the Cuban Ministry of Economy to the National Assembly at the end of 2025.

(10) Data from ONEI, ECLAC and the World Bank.

(11) ONEI does not publish a breakdown of remittance data within 'Net Current Transfers'. However, the general view is that the largest proportion of these transfers consists of remittances from emigrants.

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BITCOIN, DYNAMIC EFFICIENCY, AND THE ECONOMIC LIMITS OF “NAKAMOTO TRUST”: AN AUSTRIAN REAPPRAISAL OF BUDISH’S ARGUMENT

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1. Introduction

The emergence of Bitcoin in 2009 sparked intense debate about the economic nature of decentralized monetary systems, their long-run viability, and their institutional implications. In recent years, one of the most influential critiques in academic economics has been advanced by Eric Budish, first in “The Economic Limits of Bitcoin and the Blockchain” (NBER Working Paper 24717, 2018) and later in its expanded and revised version, “Trust at Scale: The Economic Limits of Cryptocurrencies and Blockchains,” published in *The Quarterly Journal of Economics* (Budish, 2025).

Budish’s central thesis can be summarized in three ideas: (i) in competitive equilibrium, miners in a permissionless blockchain earn zero economic profit; (ii) for the system to be secure against a majority attack, the cost of such an attack must exceed its expected benefit; and (iii) taken together, these conditions imply an equilibrium restriction—namely, a necessary condition for the equilibrium described by the model to exist and remain sustainable—according

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to which the “flow cost” of maintaining blockchain security must be persistently large relative to the gains from attacking it. On this basis, Budish concludes that “Nakamoto Trust” is structurally expensive and that there are intrinsic limits to how economically significant Bitcoin can become as a monetary or settlement system (Budish, 2018, 2025).

In parallel, within the Bitcoin community and from perspectives more closely aligned with the Austrian School, a set of responses has emerged that challenges both the assumptions and the scope of those conclusions, stressing the dynamic, institutional, and entrepreneurial character of Bitcoin security. Notable contributions include the security model of Hasu, Prestwich, and Curtis (2019), which emphasizes the role of mining’s sunk capital, and Garratt and van Oordt’s analysis of the relevance of fixed costs and specific hardware (ASICs) in protecting against double-spend attacks (Garratt & van Oordt, 2020). In addition, several authors and specialized commentators have offered more informal yet economically substantive critiques of Budish’s approach (Oasis Team, 2018).

The aim of this article is to reassess Budish’s argument from the standpoint of the theory of dynamic efficiency developed by Huerta de Soto (2009), while also taking into account three dimensions that are crucial from an Austrian perspective and close to Bitcoin:

- The cost of sound money (a gold standard or a Bitcoin standard) relative to the visible and invisible costs of unsound fiat money managed by central banks.
- The legal-economic nature of Bitcoin ownership as a form of radically secure, decentralized, and practically unseizable property (Graf, 2013).
- The essential difference between Bitcoin—understood as a commodity money with an immutable supply—and cryptocurrencies, which in practice function as securities that can be manipulated by their promoters.

These three dimensions are developed in Serrano (2025).

The central claim of this article is as follows: if one adopts a genuinely dynamic notion of efficiency—focused on entrepreneurial

creativity, institutional quality, and the solidity of property rights—the expensive character of trust in Bitcoin is not a decisive argument against its viability, but rather a reflection of the price that must be paid for a monetary and property regime far more robust than the one prevailing under fiat money. The problem is not that Bitcoin is too costly, but that a static framework overlooks the opportunity cost of maintaining an inflationary system supported by bank credit and state discretion.

Methodology

This paper adopts a literature review and a theoretical-institutional approach. Specifically, it reconstructs Budish's argument (2018, 2025) as a consistency restriction on the security budget, contrasts its assumptions with recent contributions on security, sunk costs, and specific hardware, and reinterprets the debate through the lens of dynamic efficiency theory, emphasizing the role of institutions and property rights. The purpose is not to refute Budish's formal model on its own terms, but to reassess its scope under an alternative theoretical framework.

The sources used are mainly documentary (academic articles, working papers, and specialized literature), complemented by a comparative conceptual analysis. The criteria for bibliographic selection reflected theoretical relevance to the debate on the economic limits of PoW and its environmental sustainability, prioritizing peer-reviewed articles, widely cited working papers, and contributions representing both critical and supportive positions.

2. “Nakamoto Trust”: definition and basic features

In contemporary discussions about Bitcoin, and particularly in Budish's work, the expression “Nakamoto Trust” has become popular to denote the specific type of trust that emerges from the so-called Nakamoto consensus, introduced by Satoshi Nakamoto in his foundational 2008 paper. This is not “trust” in the traditional sense—placed in identifiable authorities, institutions, or

intermediaries—but rather a set of probabilistic guarantees based on cryptography, game theory, and economic incentives.

In traditional payment and settlement systems, trust is placed in centralized entities: commercial banks, central banks, clearing houses, wholesale payment systems, and so on. These entities maintain accounting ledgers, validate transactions, and prevent fraud (such as double spending) through internal procedures, audits, and, ultimately, the backing of the state's coercive power. The typical user does not personally verify the integrity of the system; rather, they rely on the institutional and regulatory solidity of those intermediaries.

Nakamoto's model reverses this logic. Nakamoto consensus is a consensus mechanism for peer-to-peer networks that allows thousands of untrusted nodes to coordinate on the construction of a shared record of transactions (the blockchain) without requiring a central authority. The core of this mechanism is proof of work (PoW): miners compete in a computational lottery, repeatedly performing a large number of calculations until they can propose a valid block of transactions and add it to the chain.¹

¹ It is often imprecisely claimed that miners "solve complex mathematical problems." In reality, the Proof-of-Work process does not consist of solving sophisticated equations but of a brute-force procedure. Each miner searches for an arbitrary number (a nonce) which, when combined with the block's data (set of transactions, timestamp, hash of the previous block, etc.) and processed through the SHA-256 cryptographic function, produces a hash that is less than or equal to a threshold set by the network, determined by the "difficulty" parameter. This hash must fall below a certain target (which in practice corresponds to beginning with a specified number of leading zeros in its hexadecimal representation), making it extremely unlikely to be found within a small number of attempts. There is therefore no deterministic "solution" to a mathematical problem, but rather a purely probabilistic process in which miners repeatedly compute hashes (millions or billions per second) until, by chance, one satisfies the required criterion. A common analogy is to imagine a die with one million faces that is rolled until a number lower than ten appears: no complex problem is being solved; the experiment is simply repeated until luck prevails. The greater the computing power (hashrate), the more "rolls of the die" a miner can perform per second and, therefore, the higher the probability of finding the block before competitors. The network automatically adjusts the difficulty every 2,016 blocks (approximately two weeks) to maintain an average block time of around ten minutes. The purpose of this Proof-of-Work mechanism is to require miners to demonstrate that they have incurred a real expenditure of resources (energy and hardware) in order to propose valid

The fundamental rule of Nakamoto consensus is that the valid chain is the one that accumulates the greatest amount of computational work—in practice, the “longest” chain in PoW terms. As long as the majority of mining power is controlled by honest agents, adding new blocks to the honest chain is faster and more likely than reconstructing an alternative history. To rewrite the transaction history (for instance, to execute a large-scale double spend), an attacker would need to control a very large fraction—in principle, more than 50%—of the network’s total computing power for long enough, which in principle makes the attack extremely costly and risky.

In this context, Nakamoto Trust refers precisely to this peculiar form of trust: rather than trusting the honesty of a central institution, participants trust that (i) economic incentives align most mining power with honest behavior, and (ii) the amount of work accumulated in the dominant chain makes retroactive manipulation of the ledger impracticable except at prohibitive cost. “Trust” is thus placed in the combination of consensus rules, cryptography, and incentives—not in the goodwill of a third party.

This design has well-known advantages: a high degree of decentralization, radical transparency of the ledger (anyone can independently verify the validity of the chain), and the elimination of mandatory intermediaries in basic settlement. However, it also has limitations: the energy consumption associated with proof of work, scalability constraints at the base layer, and the possibility of majority attacks if mining power were to become significantly concentrated in coordinated hands. Budish’s argument derives much of its force from these costs and risks. From the standpoint of Huerta de Soto’s theory of dynamic efficiency and Austrian monetary theory more broadly, however, it becomes necessary to interpret more carefully what “trust” in Nakamoto Trust truly means and what role it may play within a broader market order.

blocks. The miner whose block is accepted receives the reward (newly issued bitcoins plus transaction fees). It is this real cost associated with mining that makes attempts to rewrite the chain’s history and carry out fraud, such as double spending, prohibitively expensive.

3. Theoretical framework: static efficiency, dynamic efficiency, and the market order

Huerta de Soto's critique of the static efficiency paradigm and the Pareto optimum is well known in Austrian School literature. In contrast to a view that identifies efficiency with the allocation of resources given a fixed set of preferences, technologies, and endowments, dynamic efficiency theory redefines economic efficiency as the capacity of the market process to discover, generate, and coordinate new dispersed knowledge (Huerta de Soto, 2009).

In this framework:

- The central object of analysis is not equilibrium but the market process.
- The key is not the allocation of resources at a given moment but the entrepreneurial capacity to discover opportunities and correct discoordination.
- Institutions—especially property rights, contract enforcement, and the stability of the rules of the game—become central parameters of efficiency.

Huerta de Soto insists that dynamic efficiency is closely linked to ethical considerations: without strict respect for private property and for the fulfillment of contractual promises, the entrepreneurial function is distorted and the coordination process loses its capacity to generate social order (Huerta de Soto, 2009). It is precisely from this perspective that the Austrian critique of fiat money and fractional-reserve banking gains full force: systematic manipulation of interest rates and the money supply generates boom-bust cycles, distorts economic calculation, and undermines trust in basic social institutions (Huerta de Soto, 1998).

This dynamic conception of efficiency, in turn, implies a different criterion for evaluating technologies such as Bitcoin:

- It is not enough to ask whether its consensus mechanism is expensive in terms of energy or miner compensation.
- One must compare that cost with the cost of alternative trust-production mechanisms (the state apparatus, the

banking system, centralized payment networks) and, above all, with their cumulative effects on intertemporal coordination and individual freedom.

From this perspective, the relevant question is not whether Nakamoto Trust is expensive, but which institutional order is more dynamically efficient when we compare not only what is seen but also what is not seen, to use Bastiat's (1850) well-known distinction.

4. Budish's argument and its scope

Budish builds his critique of Bitcoin around three central equations (Budish, 2018, 2025). In simplified terms, his argument can be summarized as follows:

- A zero-profit condition for miners: in competitive equilibrium, expected revenue per block equals the marginal cost of mining. If expected income per block (subsidy plus fees) were persistently above the cost of energy and hardware, new miners would enter until economic profit is driven to zero. If it were below, some miners would exit until the hashrate fell and marginal profitability again equaled cost.
- An incentive-compatibility condition ensuring security against majority attacks: the cost of mounting an attack (in terms of the resources needed to control most mining power for the relevant time) must exceed the expected value of the attack. In other words, for a double-spend or systematic sabotage attack not to be attractive, the cost of temporarily acquiring sufficient hashing power—or diverting existing power to malicious ends—must exceed the potential gains.
- A necessary condition for the model's equilibrium to exist and be sustainable: this condition combines the previous equations and concludes that recurrent payments to miners ("security flow") must be large relative to the benefits of an attack ("stock of value to be captured") if network security is to be maintained. Put differently, if the system is in competitive equilibrium and is secure, this relationship between "security flow"

and “stock of value to be captured” must hold. When expected revenue per block equals marginal mining costs in equilibrium, and one simultaneously requires attack costs to exceed the value that can be captured, one arrives at a proportionality relation between the security budget and exposed value: the more value the network aims to protect, the greater must be the continuous resource flow dedicated to sustaining the hashrate.

From this basic structure, Budish formalizes the problem as a repeated game between a potential attacker and honest miners. The attacker compares the economic value extractable from the network (e.g., via a double spend of a given magnitude) with the cost of acquiring or renting enough mining capacity for the time needed to reorganize the chain. Miners, for their part, adjust their supply of computing power until expected revenue per block equals their costs. A secure equilibrium therefore requires that, for relevant parameter values (Bitcoin’s price, the volume of exposed transactions, the marginal cost of hashing, the time required for the attack), attack costs exceed the value that can be captured.

Budish draws several implications from these relationships:

- A permissionless consensus system that seeks to protect a very large economic volume (e.g., Bitcoin as a global “digital gold”) would be forced to sustain a very large security bill; otherwise, the incentive for a majority attack would grow until the equilibrium becomes likely to break down. That is, if the security budget (total payments to miners) does not rise roughly in proportion to the total value settled on the network, the inequality between attack cost and potential loot would reverse, and a sufficiently capitalized attacker might find it profitable to mount such an attack.
- The need to maintain those payments over time clashes with Bitcoin’s finite issuance schedule, which reduces the block subsidy through successive halvings (until it disappears in 2140). Insofar as network security relies on the block reward, the transition to a scheme in which fees must by themselves sustain the hashrate poses a structural problem: if fee income does not rise sufficiently and stably, the security budget

would shrink, eroding the system's guarantees. From this perspective, Bitcoin's fixed supply—one of its main monetary virtues—would become, paradoxically, a source of long-run fragility. Whether transaction fees alone can sustain a sufficiently robust security budget over the long term remains an open empirical and theoretical question, whose resolution will depend on the evolution of demand for block space, second-layer adoption, and mining cost structures.

- Consequently, there would be intrinsic economic limits to the magnitude of the role that Bitcoin and similar technologies can play in the monetary and financial order (Budish, 2018, 2025). According to this logic, it would be unrealistic to expect a system based on proof of work and block rewards to protect, efficiently, a volume of wealth comparable to that of a global financial system without incurring disproportionate security costs. Hence the title of his work: the economic limits of Bitcoin and the blockchain.

Budish illustrates these ideas with quantitative comparisons between Bitcoin's security budget and the value of potentially exposed transactions. If the value settled on-chain grows faster than total payments to miners, the gap between "available loot" and the effective cost of attacking it widens. In principle, an actor with access to abundant capital—a hostile state, a large financial conglomerate—could coordinate a majority attack with a favorable cost-benefit ratio, especially if it does not fully internalize the reputational damage to the network or, for strategic reasons, values the harm inflicted more than the direct monetary benefit.

It is important to acknowledge that Budish's reasoning has explanatory power when applied to small blockchains with low security budgets, easily replicated tokens, and non-specialized consensus mechanisms. His analysis captures well why so many cryptocurrencies have suffered relatively cheap 51% attacks with devastating effects on trust and capitalization. Where the total value at stake is modest, the cost of coordinating an attack can remain below the potential loot, and the threat of a successful attack is real and frequent.

The essential question is whether that same logic can be applied without qualification to Bitcoin—with its specific combination of

proof of work, specialized hardware (ASICs), historical security track record, and ownership structure—and, further, whether it can be used to conclude that Nakamoto Trust is dynamically inefficient as the foundation of a long-run monetary order. The remainder of the article questions this extrapolation. It argues that Budish's model, understood as a static consistency restriction, omits key elements of dynamic efficiency: the sunk costs of mining capital, hardware specificity, path dependence, miners' reputational discipline, and, ultimately, the institutional value of a strong property regime and an immutable monetary supply.

5. Budish's model as a security equation of exchange: a critique from dynamic efficiency

Huerta de Soto's Austrian critique of the equation of exchange ($MV = PT$)—as developed by Mises, Hayek, and Rothbard, and systematized by Huerta de Soto (1998)—provides a fertile framework for evaluating the scope of Budish's mathematical model of the “economic limits” of Bitcoin. In both cases we face formal constructions that, while acceptable as definitional identities or simple aggregate restrictions (i.e., equalities that hold by virtue of how magnitudes are defined), are often used as if they contained a complete causal theory of complex phenomena: the purchasing power of money, in the case of the quantity equation; the security of a decentralized consensus system, in Budish's case.

From the standpoint of dynamic efficiency, the diagnosis is similar: both the equation of exchange and Budish's system of equations are static and mechanistic descriptions, incapable of capturing the microeconomic processes, the role of time, and the capital structure that characterize a real monetary economy.

5.1. *Formal tautologies and lack of causal content*

Huerta de Soto stresses that the equation of exchange ($MV = PT$) is ultimately a tautological identity: it asserts that total monetary expenditure (left-hand side) equals the monetary value of

transactions (right-hand side). The problem arises when one seeks to endow this identity with explanatory content regarding the price level or the value of money. Moreover, reducing heterogeneous transactions to an aggregate PT involves, as Rothbard argues, an “illogical leap”: there is no solid basis for homogenizing goods and services of diverse nature into a scalar magnitude. The equation is thus reduced, in Huerta de Soto’s words (1998), to a “mere ideogram” devoid of causal power.

Something similar occurs with Budish’s central result. Combining miners’ zero-profit condition with the attacker’s incentive condition leads to an inequality of the form:

$$p_{\text{block}} \geq V_{\text{attack}} / (A_{\text{star}} * t(A_{\text{star}})),$$

that is, the flow of payments to miners per block must be sufficiently large relative to the value of an attack and the time it requires. This relation is correct as a consistency restriction: no security system can be robust if the value that can be looted vastly exceeds the cost of violating it. It is a minimal condition of the system’s logical coherence. If it does not hold, the system is not viable (it is inconsistent with the idea of “security”). But when taken as an “explanation” of Bitcoin’s economic limits, it incurs a problem analogous to that of the equation of exchange: it merely expresses, in symbolic form, the idea that spending on security must exceed the potential gains from an attack, without providing a genuine theory of the process by which both terms are determined and adjust over time.

In both cases, the mathematical form has suggestive power that can lead one to mistake an identity of definitions for a causal explanation of how the economic process actually works.

5.2. *Parameters that are mishandled: from velocity V to V_{attack} , $t(A)$, and the hashrate*

A central piece of Huerta de Soto’s critique of the quantity equation is the concept of velocity of circulation V . From Irving Fisher to Milton Friedman, quantity theory tends to treat V as relatively stable or predictable, which allows one to infer that changes in M

translate, over time, into proportional changes in P . Against this, Huerta de Soto (1998) emphasizes that V is an artificial dependent variable, defined ex post to preserve the identity, with no autonomous economic content. One cannot rigorously speak of an “average velocity” applicable to individual agents who make specific transactions. Velocity is not a technical constant, but a residual that reflects the demand for cash balances and thus changing preferences and expectations.

In Budish’s model we find a similar use of aggregate parameters:

- the value of an attack V_{attack} ,
- the expected duration of an attack $t(A)$,
- the equilibrium hashrate N_{star} ,
- and the unit mining cost c .

These parameters are treated as if they were technological or environmental data for comparative statics. Yet each of these magnitudes is in fact the result of microeconomic decisions, expectations, and capital structures:

- V_{attack} depends on patterns of Bitcoin use (treasury holdings, retail payments, derivatives), the confirmation policies of exchanges and merchants, the degree of development of layer-2 solutions that reduce the value exposed on the base chain, and expectations about the social and technical response to an attack.
- $t(A)$ is conditioned not only by relative mining power, but also by the speed and effectiveness of potential countermeasures (defensive forks, software upgrades, coordinated changes in the rules followed by nodes).
- N_{star} and c embody investment decisions in specific ASICs, technological learning, long-term energy supply contracts, and regulatory constraints across jurisdictions.

Treating these parameters as exogenous and relatively stable is, from Huerta de Soto’s perspective, akin to treating V as a constant: it freezes the outcome of human action and institutional evolution into “symbols” then taken as “technological” givens.

5.3. *Concealment of microeconomic effects and the capital structure*

Huerta de Soto further criticizes the equation of exchange for, by focusing on the “general price level” P , obscuring changes in relative prices and the redistribution of income that accompany processes of monetary and credit expansion. New money does not enter neutrally or simultaneously, but sequentially through specific channels (banking, public spending, large borrowers), generating the well-known Cantillon effects: some agents benefit from still-low prices while already holding more money, while others face higher prices without yet seeing their nominal income rise. This distorts the productive structure, artificially lengthens the stages of production farther removed from consumption, and ultimately leads to unavoidable recessions (Huerta de Soto, 1998, 2009).

Budish’s model, centered on aggregates such as V_{attack} or total hashrate, suffers an analogous bias: it obscures microeconomic heterogeneity and the capital structure involved in Bitcoin security. It does not distinguish, for example:

- between internal potential attackers (large mining pools that have invested in specific infrastructure) and external attackers (hostile states, conglomerates with strategic interests), whose incentives and constraints differ sharply;
- between different types of Bitcoin holders (retail users, firms, financial institutions, long-term *hodlers*) who would experience the impact of an attack (or an attempted attack) differently;
- between different forms of specific capital—mining farms, long-term energy contracts, software and know-how—that could be sharply devalued if trust in the network were to erode.

Just as $MV = PT$ collapses to an aggregate P that says nothing about the capital structure and the production process, Budish’s scheme reduces Bitcoin security to a relation among a few aggregate magnitudes, without tracking how changes affect the balance sheets and expectations of the various agents involved.

5.4. *Illusory neutrality and the absence of a value theory: from money to security*

Quantity theory often rests on the idea that money is “neutral” in the long run: changes in M translate mainly into changes in P , leaving T unchanged. Huerta de Soto, following Mises and Hayek, denies this neutrality: monetary and credit expansion not only raises prices, but also alters the structure of production, generates malinvestments, and leads to cyclical crises. The equation of exchange, lacking a theory of capital and time, cannot account for these effects (Huerta de Soto, 1998).

In Budish’s model we find a form of implicit neutrality assumption: for a given level of Bitcoin use, there would exist a “sufficient security budget” ensuring system resilience, independently of the concrete capital and contractual structure surrounding the network. In practice, it is suggested that if the flow of payments to miners (from subsidies and fees) satisfies the relevant inequality, the system will be secure, without much regard for how that cost is distributed, what forms of mining organization prevail, or what complementary institutions emerge (layer-2 solutions, custodians, insurers, arbitration mechanisms).

From an Austrian viewpoint, this neutrality is illusory for two reasons:

- Because the value of security itself is not neutral: having a medium of exchange with a strictly limited supply, censorship resistance, and practical unseizability profoundly alters patterns of saving, investment, and capital allocation. It is not enough to say that “ X is spent on security”; one must understand what effects that security has on the market process.
- Because the way in which the security budget is built (via subsidies, fees, or hybrid models) has implications for the temporal structure of mining capital and for the distribution of risks between users and security providers.

In both cases, the underlying problem is the one Huerta de Soto identifies in the quantity equation: a lack of a theory of value and

capital capable of correctly interpreting the aggregates being manipulated.

5.5. *Passive macro-aggregates vs human action, entrepreneurship, and institutional evolution*

Finally, Huerta de Soto criticizes the thoroughly macro-aggregate and mechanistic character of the equation of exchange: individuals are subsumed into aggregates (M, V, P, T) that are manipulated algebraically, without making visible concrete decisions, intertemporal coordination (or discoordination) of plans, or processes of learning and error correction. Austrian business cycle theory, by contrast, starts from human action and reconstructs step by step how bank credit expansion alters the intertemporal structure of production and leads to recession (Huerta de Soto, 1998, 2009).

Budish's model commits, *mutatis mutandis*, a similar bias. The mining industry is represented as a set of identical agents who enter and exit until profits are exhausted; users and exchanges as passive recipients of a consensus rule; the attacker as an abstract player comparing a benefit and a cost in a single move. Left out are:

- mining entrepreneurship (new business models, vertical integration with energy production, hardware innovation, geographic relocation in response to regulation);
- institutional innovation (Lightning Network, custody solutions, private insurance against operational failures, contract clauses that allocate risks);
- the evolution of the protocol itself and associated social norms (defensive hard forks, adjustments in confirmation policies, coordination among relevant actors on how to respond under extreme scenarios).

From Huerta de Soto's dynamic efficiency theory, these elements—entrepreneurial action, learning, and institutional evolution—are precisely what define the long-run viability of a market order. Just as $MV = PT$ cannot capture the logic of the business cycle or capitalist development, Budish's model, taken literally,

cannot capture the real dynamics of Bitcoin security, which is an emergent product of an ongoing discovery and coordination process.

In summary, the analogy is limited but instructive: Budish's system of equations plays, in the analysis of Nakamoto Trust, a role analogous to that of the equation of exchange in classical monetarism. In both cases, the tools are useful as restrictions but dangerous if elevated to the status of complete theories. Of course, security spending must be of a certain order of magnitude for the system to make sense. But if one overstates this idea (e.g., the inference that below a certain security threshold Bitcoin would necessarily become unviable), one moves from a minimal consistency condition to a purported total causal law. From an Austrian perspective, and specifically from Huerta de Soto's dynamic efficiency theory, any judgment about Bitcoin's "economic limits" based exclusively on such equations risks ignoring precisely what matters: human action, capital structure, time, and institutional evolution.

6. The cost of sound money: gold, Bitcoin, and the analysis of what is not seen

A classic objection to the gold standard, articulated in the monetarist tradition, holds that a monetary system based on a scarce good competitively produced—gold—entails an excessive resource cost: capital, labor, and land that could have been devoted to other productive ends. That same objection has been transferred almost unchanged to Bitcoin: mining would consume too much energy and too much hardware "merely" to maintain a transaction record (Serrano, 2025).

However, a more careful analysis, in Bastiat's (1850) spirit, requires comparing not only the visible cost of producing gold or securing Bitcoin, but also the hidden costs associated with an inflationary fiat monetary regime.

From this viewpoint:

- It is true that issuing fiat money has a seemingly negligible direct cost (through keystrokes at a central bank).

- But its indirect cost—in terms of boom-bust cycles, malinvestments induced by artificially low interest rates, rising public and private indebtedness, expansion of the state, and erosion of the purchasing power of savings—is enormous. Huerta de Soto has extensively documented how the combination of fractional-reserve banking and central banking generates a recurrent sequence of unsustainable expansions and crises, with large capital losses and intertemporal discoordination (Huerta de Soto, 1998, 2009).

If one focuses only on “what is seen”—Bitcoin mining’s electricity bill or the cost of extracting gold—sound money will always appear expensive relative to fiat. Yet if we take what is not seen seriously, the comparison changes radically.

In Bitcoin’s case, the large amount of resources devoted to proof of work is not technical waste, but the price the market voluntarily pays for a medium of exchange that offers unprecedented institutional properties: perfectly predictable supply, political neutrality, resistance to censorship and confiscation, global liquidity 24/7, and an ownership structure difficult to attack by legal or extralegal means (Serrano, 2025). That millions of ASICs run hash functions is not a system flaw, but a reflection of the subjective valuation participants place on those monetary properties.

In strictly economic terms, the relevant cost is not the book-keeping operating cost of mining, but its opportunity cost. Here the contrast is stark:

- The opportunity cost of a gold standard or a Bitcoin standard is foregoing an unsound fiat monetary regime and a structurally expansive state: giving up inflation as a hidden fiscal tool, discretionary manipulation of interest rates, and the sustained expansion of the political-bureaucratic apparatus.
- The opportunity cost of an unsound fiat monetary regime is foregoing sound money and a more limited state: giving up an institutional framework that favors long-term saving, prudent investment, fiscal discipline, and a reduction in discretionary monetary intervention.

If we consider dynamic efficiency, what ultimately matters is not only how much it costs to secure the monetary system in terms of resource flows, but what kind of institutional order is sustained by that cost. From Huerta de Soto's perspective, it is economically coherent that part of society's capital be devoted to maintaining a sound monetary system if doing so reduces the frequency and severity of cycles, improves economic calculation, and constrains discretionary monetary power.

In this context, Budish's claim that Nakamoto Trust is very expensive is incomplete: it correctly describes that Bitcoin's security budget must be large relative to protected value, but it does not compare that budget with the dynamic cost of the alternative monetary regime.

Environmental critiques and measuring the energy impact

From an Austrian perspective, the relevant point is not to count "energy per transaction"—a particularly misleading metric under PoW because security does not scale linearly with the number of payments—but to understand that energy expenditure is the economic anchor of ledger immutability: the observable cost of preventing double spending without a trusted third party. Precisely for that reason, the environmental debate requires carefully separating electricity consumed from carbon footprint (and avoiding metrics that conflate the two): the former is a physical magnitude; the latter depends on the electricity mix, the timing of consumption, and—above all—which generation is marginal in each system. Along these lines, part of the public critique relies on questionable carbon accounting—for instance, when it imputes to mining indirect emissions or system averages that do not identify which generation actually covers the additional consumption; or when it introduces duplications in emissions accounting and assumptions that are difficult to verify about what consumption or emissions would have occurred in the absence of mining (Carter, 2021; Rochard, 2023). None of this eliminates possible externalities; on the contrary, it forces us to discuss them with data (electricity mix, hashrate elasticity, hardware efficiency, mining location and mobility) and to

compare them with the institutional reference framework: what visible and invisible costs are incurred in securing and disciplining fiat money, its intermediaries, and its payments infrastructure.

Given that public debate about PoW often focuses on energy consumption, it is useful to incorporate the academic literature that quantifies and discusses it: there are estimates based on techno-economic models and hardware data (de Vries, 2018; Stoll, Klaaßen & Gallersdörfer, 2019), life-cycle assessment approaches (Köhler & Pizzol, 2019), and reviews synthesizing the state of the question (Vranken, 2017). In general, results depend on assumptions about hardware efficiency, electricity prices and contracts, regional carbon intensity, and patterns of mining relocation, which calls for prudence when extrapolating and, again, for distinguishing between “consumption” and “emissions”. In parallel, an argument line emphasizes that mining can behave as flexible, interruptible demand, absorbing surpluses or “stranded” energy (e.g., unevacuated renewable generation) and, in certain contexts, helping reduce emissions through methane mitigation from flared or vented gas (Saylor, n.d.; Batten, n.d.). Tracking and evidence-aggregation tools, such as BEEST, aim to organize this discussion with comparable indicators, but their usefulness depends on methodological transparency and the quality of the underlying data (Batten, n.d.).

In sum, the state of knowledge suggests avoiding categorical conclusions: the environmental assessment of PoW is highly sensitive to assumptions and to observable variables such as the local electricity mix, the marginal generation that covers additional demand, and grid constraints. For this reason, rigorous discussion should rely on replicable measurements, carefully distinguish metrics, and ultimately compare institutional costs and benefits against the relevant monetary and payments alternative.

None of these considerations eliminates the possibility of significant local externalities, which should be evaluated case by case.

7. Bitcoin’s economic security and bitcoiner critiques of Budish

Several authors close to the Bitcoin ecosystem have pointed to additional limitations in Budish’s approach. A useful, though

informal, synthesis appears in Oasis Team's (2018) response, which criticizes several key model assumptions:

- Overestimation of the value of an attack: Budish approximates the potential value that an attacker could capture as a multiple of the total value of transactions included in certain blocks. In practice, however, an attacker can only benefit from the bitcoins they already control and attempt to spend twice, so the maximum exploitable value is only a fraction of total volume.
- Ignoring price reactions to frequent attacks: if a majority attack succeeds and becomes recurrent, confidence in Bitcoin would collapse, and with it the asset's price. The value of what is "stolen" would fall quickly, reducing endogenously the incentive to repeat the attack. The model treats Bitcoin's market value as exogenous to protocol credibility, whereas in reality the two are tightly linked.
- Assuming constant marginal costs and abundant, easily redeployable mining capacity: the analysis simplifies the cost structure as if mining equipment could scale without constraints, when in practice there are bottlenecks in chip manufacturing, logistical constraints, and, in the case of highly specific ASICs, a large sunk-cost component.²

Along these lines, Garratt and van Oordt (2020) show that the presence of significant fixed costs and specific hardware in Bitcoin mining strengthens system security: when miners must invest capital in ASICs with little alternative use, their supply of mining power reacts less to Bitcoin price drops, reducing vulnerability to double-spend attacks and weakening the most pessimistic predictions about future network security.

² A sunk cost is an expenditure that has already been incurred and cannot be recovered, or can only be recovered marginally, even if the project is abandoned. In the context of Bitcoin mining, a significant portion of the investment in specialized hardware and infrastructure constitutes sunk capital: if the network were to lose value or confidence in it were to collapse, that capital would have little alternative use and its liquidation value would be far below the initial investment.

For their part, Hasu, Prestwich, and Curtis's (2019) model emphasizes the importance of miner commitment: to operate a mining farm, an operator must invest today an amount of capital whose present value is roughly equivalent to half the bitcoins they expect to mine over the next two years. This means miners hold, in the form of specific physical capital, an economic position analogous to that of a large long-term Bitcoin holder. Any behavior that seriously damages the network—such as systematic double spending or sabotage—would erode the value of that capital and is therefore strongly disincentivized even if a one-off attack might be profitable in static terms.

In dynamic-efficiency terms, these approaches highlight that Bitcoin security:

- is not only a function of the current flow of rewards, but also of the amount of sunk capital whose value depends on the system's health;
- is not only a matter of incentives at the margin, but also of historical trajectory: after seventeen years of operation without catastrophic attacks, participants have developed expectations, routines, and informal rules that reinforce the protocol's coordinated stability.

None of this invalidates Budish's core observation (that the security budget must be high relative to protected value), but it does substantially soften the force of his more alarmist conclusions about the supposed inevitability of an attack if Bitcoin becomes very important as a store of value. Bitcoin security is an institutional and dynamic phenomenon, not a comparative-statics exercise with two equations.

8. Property, anonymity, and responsibility: Bitcoin as a new type of property

An essential aspect of the debate, rarely addressed in more formal literature, is the nature of Bitcoin ownership. Unlike bank deposits, cryptocurrencies, and fiat money itself, Bitcoin offers a property regime that combines:

- radical transparency of the ledger (the blockchain contains the full transaction history),
- pseudonymity of identities (units are associated with addresses and UTXOs, not with particular persons),
- exclusive control via private keys.

Functionally, this implies that the owner and the possessor tend to coincide: only whoever controls the private keys that allow spending particular UTXOs can dispose of those bitcoins. Except in cases of negligence, there is no separation between the right and the fact of possession.

Authors aligned with the Austrian framework have emphasized that Bitcoin meets the classic criteria of property: it is exclusively appropriable, effectively controllable, and constituted by discrete units perfectly identifiable in a public record reflecting the chain of title (UTXOs) (Graf, 2013; Serrano, 2025).

The institutional novelty is twofold:

- Bitcoin property is not guaranteed by the state. It does not depend on a central registry, on courts that can order forced transfers, or on authorities that can confiscate or freeze balances. The ultimate guarantee lies in cryptography, social consensus around the protocol, and users' custody practices.
- Bitcoin introduces, for the first time in history, a form of property that is practically unseizable and highly portable. By memorizing (or securely storing) a twelve-word seed phrase, an individual can "move" their bitcoins across borders and jurisdictions without the state having the technical capacity to prevent it.

The counterpart to this sovereignty is strict individual responsibility: the user must take charge of their own security and accept that mistakes (lost keys, sending to the wrong address, etc.) are not reversible. This has several implications for evaluating Nakamoto Trust:

- the product a user purchases with the network's security budget is not only a payment and settlement service, but a high-quality property regime, outside political discretion;

- cost analysis must incorporate the value agents place on holding a form of wealth resistant to inflation, confiscation, and censorship—particularly relevant in contexts of institutional instability or high inflation;
- the combination of relative anonymity, absence of a central authority, and cryptographic security is not a technological whim, but the condition for such property to exist at the margin in an environment where the state, by design, tends to expand its control over money and financial assets.

From the perspective of Huerta de Soto's theory of dynamic efficiency, this transformation in the property regime is not neutral: by radically improving the institutional quality of ownership of the medium of exchange, Bitcoin can expand the scope for entrepreneurship—whether as a long-term savings asset, as collateral in private contracts, or as the base layer for higher-level financial services built on voluntary custody and market rules.

9. Bitcoin versus cryptocurrencies: the immutability of the essence of property

The implications of the foregoing become clearer when comparing Bitcoin with two other universes: (i) fiat money issued by central banks; and (ii) the myriad “cryptocurrencies” launched over the past decade.

In the case of fiat money, one can argue that the monetary balances individuals hold as deposits and cash resemble a kind of security *sui generis*—what I call *security-fiat*, that is, a monetary asset whose quantitative and qualitative attributes ultimately depend on discretionary decisions by a central authority—rather than genuine commodity money. The central bank and the state retain the capacity to alter both the utility (via inflation, negative rates, regulatory changes) and the essence of what is held (e.g., leaving the gold standard in 1971 or introducing new forms of digital control over payments). In this sense:

- one dollar is, and will be, an ever smaller fraction of the total dollar supply;

- minority holders of that *security-fiat* have no guarantee of quantitative or qualitative stability of what they hold (Serrano, 2025).

A similar reasoning applies to cryptocurrencies.³ Behind them we typically find:

- an identifiable set of promoters and developers with the ability to change protocol rules (issuance, reward policy, consensus mechanism);
- a highly concentrated ownership structure that allows insiders to decisively influence system evolution;
- formal or informal governance mechanisms that make it possible, in practice, to alter the token's essence to suit the interests of majority holders.

In this framework, the minority holder of a cryptocurrency is in a position analogous to that of a minority shareholder: their property is subject to potential dilution, changes in associated rights, and so on. Qualitative and quantitative uncertainty about what is actually owned is high.

Bitcoin, by contrast, operates as a form of commodity money in the strongest sense:

- its total supply is capped at 21 million units by protocol design, and this rule enjoys extraordinary social and technical protection, making changes extremely costly and highly unlikely in practice;

³ The institutional essence of cryptocurrencies is fundamentally different from that of Bitcoin. Of the core features that define Bitcoin—decentralization, scarcity, unforgeability, immutability of monetary policy, irreversibility of transactions, censorship resistance, stability, credibility, voluntariness, proof of work, and pure property—cryptocurrencies, in general, satisfy only voluntariness (no one is forced to use them) and, in some cases, proof of work (PoW), always with the latent possibility that this mechanism may be abandoned—something that, in practice, cannot occur in Bitcoin without it ceasing to be recognized as such by its users. From this perspective, no cryptocurrency reproduces the remaining essential features of Bitcoin. The logical consequence is that Bitcoin and cryptocurrencies constitute two distinct institutional categories that should not be conflated (Serrano, 2025).

- any attempt to modify this core monetary rule would meet coordinated opposition from users, node operators, and much of the community and would, in practice, be forced to express dissent as a split chain without meaningful economic backing;
- owners—majority or minority—can reasonably expect that 1 bitcoin will always be at least one twenty-one-millionth of the total supply, even though its purchasing power fluctuates (Serrano, 2025).

From Huerta de Soto's perspective, this institutional stability of the essence of the monetary good is crucial for dynamic efficiency. A market order in which entrepreneurs can plan knowing that monetary policy will not be modified discretionarily offers far more fertile ground for intertemporal coordination and long-term investment (Huerta de Soto, 2009).

In sum, Bitcoin and cryptocurrencies do not belong to the same institutional genus. Extending to Bitcoin objections that are valid for highly centralized tokens is equivalent to conflating a commodity-money regime characterized by rule stability with a security-fiat asset subject to discretionary modification by its issuers.

10. Bitcoin, the legal order, and dynamic efficiency: substitute or complement?

A common objection—one that Budish implicitly captures—is that securing the ownership and settlement of very valuable assets in an anonymous, “lawless” environment is extremely expensive. From this, it is concluded that Bitcoin can only function as a marginal component within a broader legal order with property, reputation, contracts, courts, etc., and not as the core of an extensive market order.

From the perspective of Huerta de Soto's theory of dynamic efficiency, and in light of the preceding arguments, this objection can be qualified in several respects:

- Bitcoin does not deny private property or legal institutions; rather, it introduces a layer of property that is prior to, and

resistant to, state interference. On top of this layer, many contractual, entrepreneurial, and legal arrangements can be built: from professional custody services and private insurance to arbitration and private-law courts specialized in disputes involving keys, access, inheritance, and so on.

- The fact that sovereign custody is possible (self-custody) does not imply that all agents will choose it. Many will legitimately prefer to delegate part of the responsibility to trusted third parties, entering the realm of contracts enforceable by traditional legal systems. When this happens, what the user directly holds is no longer pure Bitcoin but an IOU (with different risks). That decision, however, is voluntary and reversible: the underlying good continues to exist as property in its sovereign form (Bitcoin in self-custody).
- As for the supposedly “excessive cost” of securing valuable transactions in an anonymous environment, it is worth recalling that Bitcoin anonymity is relative and that the system is evolving toward second-layer solutions (e.g., Lightning Network) that increase transaction volume without raising the base-layer security budget linearly.

More importantly, from dynamic efficiency theory the evaluation criterion is not only the cost of operating a system at a point in time, but its capacity to foster entrepreneurship, protect property rights, and limit discretionary power. From this perspective, Bitcoin can be seen not as a total substitute for the legal order but as a key component of a polycentric order of private institutions:

- at the structural level, the Bitcoin network guarantees a property register and an immutable monetary policy without requiring trust in the state;
- at other levels, firms, contracts, and reputational mechanisms emerge that coordinate more complex uses—from financial services to payment infrastructures—always arbitrating between the security of sovereign custody and the convenience of intermediation.

This view is coherent with Huerta de Soto's general thesis: a dynamically efficient market order tends to rely on institutions that emerge evolutionarily, respect private property, and leave ample room for free enterprise (Huerta de Soto, 2009). Bitcoin fits this pattern well.

The claim that it makes no sense to expect a system seeking to replace the logic of private property and legal institutions to be dynamically efficient at scale must be reformulated: what is dynamically inefficient is a system that replaces private property with discretionary promises of third parties (states or token issuers). Bitcoin does the opposite: it radicalizes private property, makes it technically more defensible, and invites a rethinking of higher-level institutional arrangements on firmer foundations.

11. Conclusions

This article has reassessed Budish's critique of the economic limits of Bitcoin and the blockchain from a theoretical framework distinct from static efficiency and partial-equilibrium analysis. In particular, it has argued that an adequate evaluation of Bitcoin requires incorporating dynamic efficiency, the entrepreneurial function, and institutional analysis, along the lines developed by Huerta de Soto (2009).

From this perspective, the high cost of Nakamoto Trust is not interpreted as waste, but as the institutional price of sustaining a monetary and property regime with more rigid and verifiable rules without the need for a trusted third party. That cost must be assessed together with its counterpart: the opportunity cost of forgoing unsound money and an institutional framework that facilitates monetary discretion, credit expansion, and, ultimately, business cycles, with persistent effects on saving, investment, and fiscal discipline.

The paper has also incorporated contributions from more recent specialized analyses (Hasu et al., 2019; Garratt & van Oordt, 2020; Oasis Team, 2018) that help nuance key assumptions in Budish's argument by introducing dynamic elements: sunk costs, specific hardware, path dependence, and reputational discipline mechanisms that influence miners' and participants' incentives.

A central result of the discussion is the importance of the property regime made possible by Bitcoin: the combination of pseudonymity, practical unseizability, and extreme portability constitutes a singular institutional innovation, consistent with the Austrian defense of property rights and with the critique of fractional-reserve banking (Graf, 2013; Serrano, 2025). In this sense, the paper has also emphasized the need to clearly distinguish between Bitcoin and cryptocurrencies: whereas the latter tend to reproduce, in private form, features typical of security-fiat (promises alterable by their controllers), Bitcoin approaches commodity money with an immutable essence—an especially relevant feature for dynamic efficiency in the long run.

None of the above implies that Bitcoin is a perfect system or that the challenges highlighted by Budish—particularly the transition toward a security regime based almost exclusively on fees—should be minimized. The long-term sustainability of a fee-driven security model remains contingent upon factors that are still evolving, including transaction demand, technological innovation, and miners' capital commitments. It implies, rather, that its evaluation requires attending (i) to the costs of what is seen and what is not seen (Bastiat, 1850; Serrano, 2025); (ii) to the institutional dimension of money and property (Graf, 2013; Huerta de Soto, 1998, 2009; Serrano, 2025); and (iii) to the creative, open, and entrepreneurial nature of the market process (Huerta de Soto, 2009).

From this perspective, the relevant question is not whether Bitcoin will fully replace the prevailing monetary and legal order, but rather to what extent its existence and expansion contribute to making that order more dynamically efficient by offering a sounder monetary base, less exposed to political arbitrariness and more consistent with a strict conception of property rights. In this sense, Bitcoin can be interpreted as a significant step in the evolution of monetary institutions toward forms of social coordination less dependent on the state and more aligned with market processes and human entrepreneurship.

Conflict of interest

The author declares that he has no conflict of interest.

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MONEY, CAPITALISM AND LOAN BANKING WITH A 100 PER CENT RESERVE RATIO IN 6TH-CENTURY BC BABYLONIA

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1. Introduction

The legal nature of the irregular money deposit contract, the necessary duty of care and safekeeping it entails, and the economic consequences arising from its breach have been one of the central concerns of the Austrian School of Economics.

Theorists such as **Ludwig von Mises** (1912), **Murray Rothbard** (1962) and **Jesús Huerta de Soto** (1998) argued that a breach of the duty of safekeeping (when institutions use their clients' deposits to grant loans or make investments) constitutes the ultimate root cause of economic cycles. These authors further considered that such a ratio constituted an inexcusable ethical and legal requirement, derived from the very principle of private property. From this perspective, the only way to preserve monetary stability and legal certainty would be to implement a **100 per cent reserve ratio**, so that demand deposits are fully backed by liquid reserves.

From this perspective, the problem of fractional reserve banking is not merely a technical issue of bank management, but rather relates to the legal nature of contracts and the intertemporal coordination of the market. Austrian criticism maintains that a demand deposit entails an obligation of safekeeping and immediate

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availability, whilst a loan involves the temporary transfer of the availability of the asset lent. The confusion between these two concepts alters the structure of property rights, introduces systematic mismatches between enforceable obligations and illiquid assets, and allows for an expansion of credit not backed by prior savings. For this reason, the defence of a 100 per cent cash ratio should not be understood merely as a proposal for financial prudence, but as an institutional consequence of the principle of private property and the requirement of contractual compliance (Mises, 1912 [2012]; Rothbard, 1962; Huerta de Soto, 1998).

In contemporary economic thought, the defence of a 100 per cent cash ratio is not exclusive to the Austrian School. Since the so-called 'Chicago Plan', formulated in the context of the Great Depression in the United States by authors such as Henry Simons (1936), and later taken up by Milton Friedman (1948), it has been justified primarily on grounds of macroeconomic efficiency and price-level stability.

However, this thesis has been criticised by authors such as Huber (2013), and even within the Austrian School itself. Juan Ramón Rallo (2019), for example, has highlighted the practical and conceptual difficulties of maintaining a banking system with full reserves in a modern economy, arguing that the lending of deposited funds, provided it is carried out transparently and on a voluntary basis does not necessarily imply fraud or generate structural instability, whilst the inability of a rigidly constant money supply to cope with fluctuations in the demand for liquidity constitutes a serious economic problem.¹

In this context, the historical experience of pre-modern institutions that operated *de facto* with very high reserve ratios takes on particular relevance for the current debate on the various possible architectures of the banking system. The debate, therefore, is not merely theoretical, but refers to the historical possibility of financial institutions operating with a full reserve ratio, that is, without resorting to the creation of additional fiat money.

It is not, therefore, a matter of mechanically projecting contemporary banking categories onto ancient societies, but rather of

¹ See Bagus 2014 and 2023 for a rebuttal of the arguments put forward by Huber and Rallo.

using economic history as a field for institutional comparison. If a monetised, mercantile and legally sophisticated economy was able to establish mechanisms for safekeeping, lending, clearing and the transfer of rights without resorting to the appropriation of demand deposits, then the modern debate on full reserve ceases to be a mere abstract normative construct. This historical case allows us to examine whether the separation between deposits and credit—regarded by Huerta de Soto as a condition for monetary stability and legal certainty—can also be observed in pre-modern contexts where the law of obligations and contractual trust played a central role.

In this regard, economic history offers an example of extraordinary interest from a surprisingly remote period: the **House of Egibi**, one of the most influential families of bankers and businessmen of the Neo-Babylonian and Achaemenid periods (c. 612–484 BC). This family is documented across five generations, up to the archival hiatus associated with the Babylonian revolts against Xerxes in 484 BC, an episode that marked a turning point in the private records of numerous urban Babylonian families (Waerzeggers 2003/2004). Their archive comprises more than 1,700 cuneiform tablets and has been analysed by scholars such as Wunsch (2000), Abraham (2004) and Jursa (2010), amongst others.²

The Egibi household engaged in financial, commercial and agricultural activities within a highly sophisticated institutional framework, and the available evidence suggests that its day-to-day lending activity was not based on the use of demand deposits, but rather on its own capital, commercial profits and patrimonial assets, which allows it to be interpreted as a form of lending banking functionally comparable to a full-reserve system.³

² As a methodological precaution – given that this is not a historical journal specialising in Assyriology – it would be pointless to refer directly to specific tablets from the Egibi or Kanesh archives to support our key assertions; we shall therefore draw on secondary sources. Similarly, Akkadian terms are transcribed rather than written in cuneiform script.

³ Huerta de Soto (1998, p. 37) had already highlighted the importance of the Egibi tablets as evidence of ancient banking practices.

2. The Mesopotamian economy: between the redistributive model and the market economy

In what kind of economy did this family and its associates conduct their commercial activities? For much of the 20th century, the dominant interpretation of the Mesopotamian economy was shaped by the **institutionalist paradigm** proposed by the Austrian anthropologist Karl Polanyi (1886–1964). In his influential and widely read works *The Great Transformation* (1944) and *Trade and Market in the Early Empires* (1957), Polanyi argued that the economies of the ancient Near East could not be understood using the analytical tools of modern market economics, as they lacked free prices, private capital and autonomous mechanisms of supply and demand. According to his thesis, economic transactions in pre-classical civilisations were governed by the principles of **reciprocity** and **redistribution**, managed by state institutions such as the temple or the palace, which acted not only as religious and administrative centres, but also as dominant economic agents within a form of primitive distributive socialism. This framework had a profound influence on subsequent historiography, cementing a deeply statist view of the Mesopotamian economy.⁴

However, as early as the second half of the 20th century, archaeological and documentary evidence began to accumulate that challenged this theoretical model. Pioneering research by Leemans (1950; 1960) and Van de Mieroop (1992; 1997) demonstrated the documented existence of a **highly active private sector**, comprising merchants, farmers, artisans and trade associations (*harrânu*, in the Akkadian language), who engaged in both local and international trade without state intervention or redistribution beyond the state's usual functions.

It is symptomatic of the prevailing Polanyian paradigm in research that one of the most renowned scholars of the Ancient Near East, Mario Liverani, in his classic reference work *The Ancient Near East: History, Society and Economy* (1995) and in *The Ancient*

⁴ Even an openly liberal author such as Fernández Méndez (2025, pp. 66–76) repeats the old myth of the predominance of the temple and palace economy in a recent popular work.

Mesopotamian City (1997), adapted Polanyian theory to accommodate this contradictory historical evidence in order to avoid having to reject it. According to Liverani, although temples and palaces retained institutional control over a large part of production, their management was not limited to bureaucratic redistribution, but also included directing profit-oriented commercial practices, which he termed '*administered trade*'. It is regrettable that his followers have perpetuated this view without undertaking a critical analysis (e.g. Renger, 2005; Aubet, 2007).

However, the current trend in Assyriological studies is to recognise that the private sector played a **much broader and more autonomous** role than was previously acknowledged. The evidence provided by cuneiform tablets has led to a radical reinterpretation of the Mesopotamian economic structure and the refutation of Polanyism (e.g. Silver, 1983; Dercksen, 1999). The leading proponent of this paradigm shift is the Assyriologist Michael Jursa, Professor of Assyriology at the Institut für Orientalistik, University of Vienna, who is one of the principal advocates of this necessary re-evaluation.

His most important work, the monumental *Aspects of the Economic History of Babylonia in the First Millennium BC* (2010), represents a historiographical turning point. Basing his analysis on more than **20,000 cuneiform tablets** from public and private archives, including those from the cities of Babylon, Borsippa, Nippur, Uruk and Sippar, Jursa demonstrates that the economy of Lower Mesopotamia during the first millennium BC was not a closed redistributive system, but rather a **monetised, complex economy organised around a free market**.⁵

The great Babylonian temples, such as the Esagila in Babylon, dedicated to Marduk, employed **free labourers**, leased land and engaged in credit transactions. At the same time, merchant families of considerable economic power operated as **diversified enterprises** combining commercial, agricultural and financial activities. This network of mixed relationships demonstrates that the Neo-Babylonian economy was an **open and competitive** system,

⁵ See also Jursa (2004, 2014a, 2014b, 2015) and Pirngruber (2017).

in which private initiative coexisted with a state that could be considered minarchist by today's standards. The latter did not override contractual freedom or private property, and certainly did not intervene in price formation or redistribute surpluses in a quasi-socialist manner.

The interpretation of Babylon as an increasingly monetised economy sensitive to market mechanisms has been reinforced by recent research on prices and economic integration. Pirngruber (2017) has re-evaluated the late Achaemenid and Seleucid economies using cuneiform records and price data from the Babylonian Astronomical Journals, focusing on the impact of political events on supply, demand, prices and the money supply. His approach, inspired by New Institutional Economics, is useful because it shows that the Babylonian economy can and should be studied through the lenses of market performance, monetary circulation and institutional incentives, and that the old paradigm of an economy administered by temples and palaces is untenable.

3. Kanesh: capitalism four thousand years ago

In this debate on the nature of the ancient economy, the case of the Old Assyrian trading post of Kanesh (now Kültepe, in Cappadocia), which reached its peak between the 21st and 18th centuries BC, is of great significance. It provides evidence of typically capitalist practices, revealing an economic complexity and rationality that predate by several centuries what is generally acknowledged in popular works (*e.g.* Fernández Méndez, 2025). The abundant cuneiform archives found at Kanesh—more than **25,000 tablets**—constitute one of the most significant documentary collections from an economic perspective in the entire ancient world, offering an exceptionally detailed picture of economic and financial activity in the second millennium BC. The picture painted by the extensive studies carried out by Veenhof (1972, 2010), Michel (2001, 2020) and Larsen (2015) is absolutely irrefutable and debunks many myths.

Kanesh's significance for economic history lies not only in the exceptional volume of preserved tablets, but also in the private

nature of the archives. Veenhof has emphasised that the Paleo-Assyrian archives were found in the homes of merchants based in Kanesh, and that they contain a combination of contracts, correspondence, caravan records, legal documents and private memos. We are therefore not dealing with documentation generated primarily by palaces or temples, but rather with domestic and business archives that reflect the activities of private merchants, their families, agents, partners and creditors. This fact is decisive for the historiographical debate, as it proves the existence of an autonomous commercial sphere, organised through documents, witnesses, correspondence and complex contractual practices. Within this **commercial diaspora**, Assyrian merchants maintained their own identity, networks and norms, striking agreements with local political powers (Veenhof, 2003; Stein, 2005, 2008).

The *Kārum Kanesh* (literally, the ‘commercial quarter’ of the city of Kanesh) constituted a trading colony in the interior of Asia Minor, subordinate to the city-state of **Aššur**, the homeland of the Assyrians, but endowed with legal and economic autonomy from the kings of Kanesh. This enclave formed part of a well-organised network comprising some thirty **trading posts** (*kārū*),⁶ which enabled Assyrian merchants to maintain a permanent presence in the main trading centres of Anatolia, operating under their own laws and courts, and enjoying freedom of movement and safeguards against arbitrary exactions or confiscations.

Trade was essentially carried **out by caravan**, based on long overland routes connecting Assyria with Anatolia via donkey caravans transporting **tin, textiles and precious metals** – high-value goods in short supply in the region. It is interesting to note that in the city of Aššur, trade was overseen by a **municipal assembly**, presided over by the so-called *limmum* (an eponymous magistrate),

⁶ Barjamovic (2010) reconstructed the historical geography of Anatolia, as well as the logistics and dangers of Paleo-Assyrian trade, based on topographical, archaeological and textual evidence. Stein (2005, 2008) emphasises that the Assyrian trading colonies in Anatolia constitute one of the earliest and most significant examples of colonial encounter, and were not the result of the forcible imposition of political power, but rather of the migration of individuals for economic reasons. The fact that private trading networks could generate their own forms of institutional coordination is a further refutation of Polanyism.

who acted as a body for oversight and public administration: he safeguarded the treasury and the archives, collected taxes, regulated weights and measures, and managed the municipal grain stores. The **royal palace**, by contrast, is scarcely mentioned in the records, which demonstrates that Early Assyrian trade was not a palace-based enterprise, but rather a **civic and private** institution, organised around the citizens' assembly and the merchant guilds.

Specific economic terminology has been the subject of monographic studies, such as those by Veenhof (1972, 1997) and Dercksen (1999, pp. 55–100, 2014, 2018). Assyrian merchants formed associations (*tappūtum*) or full-fledged **companies** (*ellūtum*) with shared legal liability, with the curious guarantee that the contract had been formalised in the merchants' houses (*bīt tamkārim*). They financed their expeditions through direct loans in which 'silver was borrowed in return for interest' (*kaspaṃ ana šibtīm laqā'um*) on a medium- or long-term basis (*ana ūmē qurbūtīm; ana ūmē patiūtīm*), distinguishing between initial capital (*šīmat kaspin*) and interest (*ana šibtīm*), or through investment contracts with **financial partners** (*ummiānum*). The latter contributed silver (*kaspu*) or goods (*makkūrum* or *luqqūtum*) in exchange for a share of the profits. These partnerships, known as *naruqqum* ('[money] bag'), invested the available capital (*būlātum*) and effectively functioned as **joint-stock companies, as rights to the invested contributions** (*šipkātum*) **could be freely bought and sold by means of certified tablets** (*ṭuppum ḥarmum*). Profits were distributed at the end of each trading cycle, in proportion to the initial investment, either in cash (*ana itatlim*), sometimes 'entirely in silver' (*kaspaṃ nuiabbi*), or in instalments (again expressed using the phrases *ana ūmē qurbūtīm* and *ana ūmē patiūtīm*). Payment in silver was not always possible due to its scarcity (*kaspu dannu*). In the event of loss, disruption to trade or abandonment of the goods, there was a right to claim payment (*bābtum*).

The legal framework was equally advanced. The evidential role of written documentation was central to Old Assyrian commerce. As many transactions involved valuable goods, silver or personal obligations, it was customary to conduct them in the presence of witnesses and to have them recorded in writing by scribes. The tablets were not merely accounting aids, but transferable instruments

of evidence that could attest to debts, payments, claims, corporate agreements or settlements (*muka'il tuppim*: 'to the bearer of the tablet'). Even the cancellation of an obligation could be documented by means of a receipt or tablet of satisfaction, drawn up in the presence of witnesses, stating that, should the original debt tablet reappear, it would be deemed invalid. This practice reveals a legal-commercial system in which private trust was reinforced by documents, seals, witnesses and procedures for the cancellation of titles (Veenhof, 2003).

Indeed, the relationship between money, calculation and written documentation has its roots in the very origins of Mesopotamian writing. Nissen, Damerow and Englund (1993) have shown that the earliest proto-cuneiform tablets of the 4th millennium BC emerged in response to needs for record-keeping, administration and accounting. Before writing became a literary medium, it functioned as a technology of economic control: it classified goods, quantities, people, rations, inflows, outflows and obligations. This documentary tradition is fundamental to understanding the subsequent development of loan contracts, deposits, payment records and archives in Mesopotamia.

There was a **free market**—a concept expressed by the Akkadian term *maḥīrum*—where prices were determined by supply and demand, rather than by state decree. High-interest loans, often at 30 per cent per annum—higher than the 20 per cent customary in Sumer or Babylon (Hudson, 2000; Garfinkle, 2004)—were granted by specialised merchants (*tamkāru*), who acted as **bankers** (Dandamayev, 1995; Spek et al., 2018). These transactions were backed by collateral, guarantees and penalty clauses, demonstrating a full awareness of risk and the time value of money.

The existence of high interest rates should not be interpreted anachronistically as a mere form of usury, but rather within a context of commercial risk, long transport times, legal uncertainty and high demand for liquidity. The history of usury shows that the moral and legal assessment of interest has varied considerably depending on institutional, religious and economic contexts. In ancient economies, interest could function simultaneously as remuneration for capital advanced, compensation for the risk assumed and a penalty for breach of an agreed obligation. Interest-free loans

(*ebuṭṭum*) also existed, typically granted by family members. This perspective allows us to situate the rates documented in Kanesh and Babylon within a broader history of theories of interest-bearing loans, predating their modern systematisation, and avoids reducing them to mere contractual abuses or signs of economic backwardness (see Hudson, 2000; Jiménez Muñoz, 2010; Martín-Grande, 2025; Chancellor, 2022 [2024]).

It is interesting to note that women (wives and daughters) were not marginal or passive figures, but **economic agents** with the capacity for effective action: they managed shipments, coordinated trade-oriented domestic production, administered the assets of their husbands and sons as well as their own, participated in financial decisions, and maintained a correspondence that reveals first-hand economic information (Michel, 2020). Far from being merely anecdotal, this fact is significant because the sophistication of contractual arrangements and the stability of commercial networks did not depend exclusively on large palatial or Templar institutions, but on a socio-legal fabric based on obligations and customs capable of sustaining, over time, the trust necessary for economic calculation.

In the legal archives of the city of Larsa (near Senkereh, in present-day Iraq) from the Early Babylonian period (2000–1600 BC), studied by Földi (2018), we also find a **similar legal and economic context**. The procedural documentation shows that the economic rationality evident in contracts and legal disputes depends on legal categories and commercial practices that ensure obligations are enforceable. The Babylonian institutional structure, with its complex network of scribes, judges and witnesses, guaranteed the **legal certainty of contracts**. The surviving cuneiform tablets record countless sales, leases, interest-bearing loans and deposits, all formalised with notarial precision. The existence of a well-established legal framework, with figures equivalent to notaries and commercial judges, fostered confidence in transactions and enabled the development of a **complex economy**, in which written documentation served an essential evidential function and reinforced the security of private property (Bongenaar, 2000).

Of course, a free market does not imply the absence of the state, taxation, institutional oversight of commercial activity, the state's

occasional involvement, or its monopoly on the use of force. The tax system levied on Old Assyrian caravan trade reveals a remarkable degree of **fiscal sophistication and customs control on the part of the state authorities**. Export and import duties were levied in both Aššur and Kanesh: there was an export duty of 1/120 of the total value (*wasītum*), whilst the *nišātum* was levied on imports at varying rates: 3 per cent on tin, 5 per cent on textiles and 4 per cent on precious metals. In addition, there was a **transit duty** (*dātum*) of 10 per cent of the total value of the caravan; a **personal transit tax** (*qaqqadātum*), ranging from 10 to 15 shekels of tin per person; and other specific duties, such as the *sadduātum* (1/60 of precious metals in Kanesh) and the *išrātum*, which granted the king of Kanesh a preferential right to purchase 10 per cent of the textiles at a reduced price.

Taken together, the Kanesh system and the Old Assyrian and Old Babylonian sources reveal characteristics typical of a market economy, **displaying a surprising level of complexity** for such an early period: clearly defined property rights, freedom of contract, flexible prices determined by supply and demand, credit instruments, written contracts, financial liability and profit-oriented corporate structures. To speak of capitalism is not a conceptual anachronism, provided we exercise due historiographical caution. We should not equate it entirely with the modern industrial capitalism found in economics and history textbooks, but rather view it as an analytical category referring to private ownership of the means of production, the division of labour, entrepreneurial initiative and calculation, free and voluntary exchanges, the free formation of prices, investment with the expectation of profit, and the private accumulation of capital. The capitalism to which we refer is, therefore, a spontaneous institutional order, not merely an industrial stage or a modern social structure (see Menger, 1871; Mises, 1920, 1949; Hayek, 1945; Kirzner, 1973; Rothbard, 1962; Huerta de Soto, 1992). Under this institutional and functional definition, Kanesh's documentation allows us to speak of an early form of mercantile capitalism, underpinned by voluntary exchanges, economic calculation and legal certainty.

The absence of state direction and the existence of autonomous institutions of oversight, commercial insurance and commercial

justice reveal an economic culture based on trust, cooperation and the pursuit of individual profit. All this demonstrates that the principles of mercantile capitalism are not an exclusive creation of the modern world, but are rooted in the business practices of ancient Mesopotamia from the very dawn of civilisation over four thousand years ago.

Ancient Near Eastern sources do not contain direct conceptual equivalents of the modern notion of entrepreneurship; consequently, the concept must be applied in an analytical and functional sense. In this study, therefore, Mesopotamian actors are not attributed a modern capitalist self-awareness; rather, economic practices characteristic of the entrepreneurial function are identified: investment, risk, profit, wealth accumulation, information management, contracting and the coordination of resources.

Paleo-Assyrian trade at Kanesh also had no direct continuity with the activities of the Egibi household, as they are separated by more than a millennium. Its significance lies in the fact that it demonstrates the early existence in Mesopotamia of private institutions of trade, credit, investment and contractual documentation. Kanesh thus shows that the Mesopotamian economy was familiar with private forms of financial coordination from a very early stage, whilst the Egibi case allows us to examine these institutions in first-millennium Babylonia, within a monetised economy based on silver by weight, documented credit and a family-owned business.

4. Money in ancient Mesopotamia: a return to Menger

The influential anthropologist David Graeber (1961–2020), best known for his critical stance towards capitalism and conventional economics, argued in his most renowned work, *Debt: The First 5,000 Years* (2011), that money did not emerge as a natural evolution of barter. Graeber sought to refute Carl Menger's theory, set out in his *Grundsätze der Volkswirtschaftslehre* (Menger, 1871) and later developed in *Geld* (Menger, 1909).

Menger's theory of the origin of money should not be understood as a simplistic, mechanistic narrative according to which

entire societies would have moved in a linear fashion from pure barter to currency, but rather as an evolutionary explanation of an undesigned social institution. Menger argued that, in contexts of indirect exchange, certain goods tend to be preferred not only for their direct utility, but also because they are easier to sell. The liquidity or marketability of these goods increases their demand as instruments of exchange, generating a cumulative process whereby certain products eventually become general means of payment. This explanation forms part of a broader theory of social institutions, according to which money, the market or certain legal rules may arise as spontaneous, unintended outcomes of human action, without the need for deliberate creation by a political authority (Menger, 1871; Menger, 1909; Martínez Meseguer, 2006).

Graeber argued that there was no historical or anthropological evidence to support this theory. Instead, he believed that primitive economies were based on **communal exchanges of gifts and redistribution**, which gave rise to networks of credit and debt. Rather than exchanging goods directly, people relied on the future return of favours or goods, thereby establishing an informal system of accounting within the community. For Graeber, money did not emerge as a commodity facilitating exchanges, but as a means of **quantifying debts**. The rise of states and great civilisations is thought to have driven the development of more complex administrative systems, which in turn led to the formalisation of debts and the creation of standardised currencies, often linked to a political or religious authority.

The weakness of Graeber's thesis lies not simply in the fact that it contradicts Menger, but in that it transforms a theoretical discussion of the institutional origin of money into a historical reconstruction insufficiently supported by the available documentation. From a Misesian perspective, economic theory and history do not fulfil the same function: the former provides analytical categories for understanding human action, whilst the latter allows for the interpretation of concrete, contingent and documented manifestations of those categories. Consequently, the Mesopotamian evidence does not 'prove' Menger's theory in a strictly empirical-inductive, that is to say, positivist, sense. However, it does show that the Mengerian explanation is historically plausible and compatible with the known

data. It is not enough to accumulate anthropological or documentary examples if these are interpreted without an adequate theory of human action. Economic theory provides concepts such as action, exchange, property, calculation, money, interest and credit; history shows how these categories manifested themselves in social institutions, methods of production and specific economic conditions. At the same time, it undermines interpretations that present money as primarily a state creation, a redistributive or purely accounting construct, detached from actual market processes (Mises, 1957; Menger, 1871; Powell, 1996; Jursa, 2010).⁷

Graeber was an anthropologist, not a historian, and his thinking falls within the **Polanyian tradition**. As we have already indicated, Polanyi maintained that ancient economies differed profoundly from modern ones. According to him, they lacked rationality and, therefore, could not be understood through modern economic theory, which he regarded as a product of ‘our obsolete market mentality’. He argued that exchanges were not driven by commercial relations, but by **social and administrative ones**, governed by the principles of **reciprocity and redistribution**. These principles were still evident in contemporary primitive societies in Melanesia, Polynesia and North America, exemplified by practices such as the *potlatch*. In Polanyi’s view, the market—understood as a mechanism for setting prices according to supply and demand—did not emerge until the beginning of the Hellenistic period (4th century BC). Furthermore, it is symptomatic of his thinking that he regarded the very idea of a self-regulating market as a utopia whose existence would destroy human society (*sic*).

The Mesopotamian system is the best documented, as Graeber himself acknowledged. But in ancient Mesopotamia **there were no systems of gift-giving and redistribution dominated by temples and palaces**, nor a ‘planned economy’, but rather **market economies**. Supply and demand determined prices, and temples and palaces participated in an active market economy. These facts have

⁷ Rallo (2017, pp. 25–57) explains Menger’s model and cites Jursa (2020) without fully grasping the historical implications, beyond simply supporting his own argument. In the case of Fernández Méndez (2025, pp. 41–83), several clichés regarding the temple and palace economy are repeated uncritically.

been demonstrated beyond any reasonable doubt by the authors we have cited. Of course, Graeber did not bother to consult these works. He sought to debunk the myth of barter on the basis of an **extremely limited** body of evidence. As a result, he exaggerated non-commercial exchanges and denied the existence of economies based exclusively on barter – a straw man argument, since this is something no one has ever claimed. In reality, barter has always coexisted with other forms of exchange, even today – a fact already recognised by researchers of the Mesopotamian economy, such as **Marvin A. Powell** in his article ‘*Money in Mesopotamia*’ (1996). Moreover, money facilitates **all kinds of exchanges**, whether commercial or not.

A well-documented example of the **barter-based** economic environment **in which money emerged** was described by **Guillermo Algaze** in his work *The Uruk World System* (1993). Algaze analysed the expansion and influence of early Sumerian civilisation on the surrounding regions during the era of ancient Uruk, in the fourth millennium BC. He argues that Uruk, the first great city in history, was not merely an isolated urban centre or a hub of luxury consumption where agricultural surpluses were buried, but an integral part of a **complex system of exchange** that shaped and organised the commercial dynamics of vast areas around Mesopotamia and beyond. The Sumerians exported agricultural and livestock products in exchange for the timber, stone and metals they lacked in their homeland, which they transformed into new products. Stein (1999) qualified these contributions, emphasising their commercial, private and decentralised nature, rather than the domination of a ‘centre’ over a ‘periphery’. It is significant that **lapis lazuli** from Afghanistan is found in both Mesopotamia and Egypt as early as 3500 BC, as demonstrated by **Payne** in *Lapis Lazuli in Early Egypt* (1968). In particular, in Mesopotamia, silver—sourced from **Anatolia, Iran, Egypt** and even more distant regions—could only be obtained through **trade, tribute or plunder** (Reiter, 1997, pp. 75–83).

Following Menger’s line of argument, which goods were the most tradable within the Uruk world system? **Barley**, the main agricultural product of Lower Mesopotamia, and **silver**, sourced from the Zagros Mountains and Anatolia. Which goods functioned as money in ancient Sumer? Precisely **barley and silver**.

Of paramount importance is the expression used in the Akkadian language to denote the act of buying and selling: *ana kaspim nadānum*, which literally means ‘to give [something] in exchange for silver’. This phrase reflects with the utmost clarity how silver by weight gradually became the general equivalent of value—that is, money. However, silver appears not only as an accounting term in contracts, but also as a physical object documented archaeologically, which was broken up, weighed, verified and circulated in trade networks (Peyronel, 2010).⁸

Metals such as silver, bronze and copper had such high intrinsic value in those days that it stands to reason they were not used in small-scale transactions, being supplemented with barley. This is without taking into account the technical problem of manufacturing scales precise enough to weigh the minute quantities of silver that would have been required (Powell, 1996; Schoonheydt, 2001a, 2004b).

In this context, the **sacred weights and measures**, guaranteed by Shamash, the sun god and patron of justice, served as a guarantee and standardised transactions, ensuring fairness in exchanges and facilitating reliable accounting that enabled economic calculations. The unit of measurement was the mina or MA-NA, one-sixtieth of a talent of silver (504g), which was in turn divided into sixty shekels (*sheqel*); the earliest record of this appeared in the Sumerian city of Shurruk and dates from c. 2600 BC. The silver *shekel*, weighing around 8.4 grams, was roughly equivalent to **one month's wages for an unskilled labourer**. Its fractions, used in everyday transactions, remind us of the origin of these small

⁸ Regarding the accounting and monetary function attributed to clay tokens—small objects moulded into geometric or figurative shapes—a theory first proposed by Denise Schmandt-Besserat (1992, 1996) and recently championed by Fernández Méndez (2025, pp. 59–61), caution is warranted. However, this interpretation must be treated with extreme caution. They may have been instruments for recording, counting and controlling assets or obligations, but there is no archaeological evidence whatsoever that the tokens were used in trade; quite the contrary, in fact, and recent research has questioned whether they constituted a unified symbolic system or an exclusively accounting system (Zimansky, 1993; Bennison-Chapman, 2019; Valério and Ferrara, 2022). Semenova (2007) reinterprets the tokens from a neo-chartalist perspective, not only as domestic inventory tools, but also as possible mechanisms for public taxation or compulsory contributions in kind.

weights: 1/24 was called *a girû* or ‘carob seed’, and 1/40 *a hallûru* or ‘chickpea’ (Bartash, 2019).

However, this primitive, pre-monetary system still lacked **standardised metal denominations**. Silver circulated in the form of **coils, ingots or irregularly cut fragments (*hacksilber*)**, known in Akkadian as *sibirtu*, literally ‘broken’ or ‘fragmented’. These pieces, often marked by goldsmiths or merchants with hallmarks, conformed to the weight system and represented money by weight without official coinage, the acceptability of which depended on trust in the reputation of the offerer (Powell, 1996; Le Rider, 2001; Ialongo-Vacca-Peyronel, 2018).

Robson (2004) has highlighted the importance of professional literacy, mathematics and metrology in Mesopotamian administration and the economy. The ability to weigh silver and other materials, convert units, record interest, calculate equivalences and draw up balance sheets depended on specialised training. Therefore, the existence of complex contracts, interest-bearing loans and commercial records cannot be understood without this intellectual infrastructure of calculation, measurement and record-keeping.

Over the centuries, this **silver-based** monetary system evolved into a fully-fledged market practice. In first-millennium BC Babylon, silver had established itself as **the de facto monetary standard**, coexisting with payments in kind (barley, dates, wool) but gradually supplanting barter (Powell, 1996; Spek, 2017). Its use intensified under Achaemenid rule, particularly from the reign of **Darius I (521–486 BC)** onwards, when the introduction of an imperial monetary system featuring standardised gold and silver coins—the darics—reinforced silver’s role as a universal means of payment. Transactions could be carried out through **deferred payments, bills of exchange or commitments to future delivery**. The prices of agricultural goods, slaves and property were determined freely by supply and demand, and transactions were formalised through contracts drawn up by public scribes on sealed cuneiform tablets. This legal and monetary framework enabled the emergence of a highly integrated economic space, where credit, investment and trust became the driving forces behind trade (Joannès, 1994; Jursa, 2010, pp. 469–753).

This precision makes it possible to integrate, without any inherent contradiction, the commercial and legal dimensions of money.

Ingham (2004a, 2004b), who is more subtle than Graeber, has criticised economic theory for treating money as merely a lubricant for exchange derived from barter. He proposed understanding it as a **social relationship** expressed through credits and debts denominated in a unit of account, which enables economic calculation. In reality, and although this author believed otherwise, this formulation does not contradict the Mengerian explanation of money as an institution of spontaneous order, but rather highlights its social and commercial nature. The fact that money functions as a unit of account and as a means of denominating debts does not imply that its origin must be sought exclusively in state imposition or in courtly accounting. On the contrary, the unit of account, the means of payment and the law of obligations reinforce one another, particularly in an economy such as that of Mesopotamia. Silver by weight made it possible to value heterogeneous goods, calculate equivalences, set prices, document debts and settle a wide variety of obligations. In this sense, the legal function of money does not replace its commercial function, but rather complements it: it is only where enforceable rights, recognised measures and settlement mechanisms exist that money can fully fulfil its role as an instrument of economic calculation and social coordination (see Pobes Layunta, 2024).

Thus, **family-run trading houses**, such as the Egibi firm, emerged as hubs for the accumulation and management of capital within a favourable legal environment. They acted simultaneously as **financial intermediaries, landlessors and commercial agents**, consolidating a business model that foreshadowed the banking system that would later develop. The Egibi firm, the subject of this study, is a prime example of this system: a private enterprise with a substantial capital base, operating within a secure legal framework and in a market economy where reliable money and contractual trust were the cornerstone of economic life.

5. The House of Egibi: banking activities with a 100 per cent cash ratio

The **Egibi family established** a multi-generational family-owned business. Their case is the best documented and most representative

of private financial activity in Neo-Babylonian and Achaemenid Babylonia, although it should not be used to make generalised extrapolations. Their archive is estimated to have originally comprised between 3,000 and 4,000 cuneiform tablets, and today approximately **1,700 tablets** have been attributed to them. This *body* of documents has been edited and studied by Cornelia Wunsch (2000), although it had already attracted the attention of authors such as Weingort (1939), Ungnad (1941), Bogaert (1966, pp. 105–118), Krecher (1970) and the aforementioned Jursa (2010), whose work we follow in the subsequent discussion.

The tablets enable us to reconstruct the development of a far-reaching family business, active over **six generations**, from the late 7th century to the early 5th century BC (c. 606–486 BC). The Egibi were not the only bankers of the period, as there were other very well-documented trading houses, such as the Nūr-Sîn family (linked to the Egibi by marriage) and the Murašû family; however, they are the best known thanks to their most valuable legacy: the **most extensive and coherent commercial archival record** of the Neo-Babylonian period.⁹ As with all private cuneiform archives, the Egibi archive must be treated with methodological caution. It does not constitute a complete sample of all the transactions carried out by the family, but rather the contingent collection of documents that have been preserved, transmitted and ultimately attributed to the house. The relative absence of certain types of contract, such as deposits, does not in itself amount to absolute negative evidence; however, when combined with the legal structure of the contracts, the patrimonial nature of the firm and the source of its main profits, it allows a reasonable inference to be drawn about the ordinary financial logic of the firm.

The Egibi family, commonly referred to as *bīt Egibi*, ‘the house of Egibi’, had humble origins and probably originated in the vicinity of Babylon.¹⁰ It went on to play a pre-eminent role in the economic networks of the Neo-Babylonian Empire (639–539 BC) and, subsequently, of the Achaemenid Empire (550–330 BC). Diversification was one of the cornerstones of its success. The firm

⁹ See Stolper (1985) on the *Murašû* from the city of Nippur.

¹⁰ The name Egibi derives from the Sumerian *e.gi-ba-ti.la*.

combined **banking, commercial and agricultural functions**, a characteristic typical of the great merchant houses of the Neo-Babylonian period. Its organisation exhibited **corporate** features in the modern sense: the family acted as a **collective legal entity**, with an internal hierarchy and clear intergenerational continuity. The leading and most prestigious members of the house, such as Itti-Marduk-balātu or Nabû-aḥḫē-iddin, appeared in documents as the firm's legal representatives, whilst other individuals—often dependants or junior partners—acted as agents in specific transactions. On occasion, the Egibi would establish **joint ventures** for specific investments, distributing the profits in accordance with each partner's contribution (Lanz 1976, on business organisation).

This hybrid structure enabled the Egibi firm to engage in a wide range of operations, ranging from local trade and the management of rural estates to the financing of international trade. Furthermore, some of its members held official posts within the imperial administration, such as judges or royal officials, which strengthened their legal standing and their access to privileged information.

The most significant aspect of this trading house's activities, for the purposes of this study, is its **banking function**. The cuneiform documents show that the Egibi made **payments and transfers** on behalf of their clients, granted loans, issued money orders, financed commercial transactions and acted as **guarantors** in third-party contracts.

However, the nature of the money lent is decisive. The uneven preservation and fragmentation of the archives may skew the record, but the apparent scarcity of deposit contracts in their archives suggests that the Egibi did not engage in this activity on a regular basis. In Mesopotamia, this function was primarily the responsibility of the temples,¹¹ although there are later documents recording deposits of silver and barley made by private agents (Stolper, 1993; Joannès, 1995; Jursa, 2006). The typical structure of this type of contract is as follows:

¹¹ The great Babylonian urban sanctuaries, such as the Esagila or the Eanna, also granted loans, entered into leases and traded in various goods, at times in a manner indistinguishable from that of a private enterprise (Harris, 1960; Mieroop, 1992, pp. 94–96; Steinkeller, 2004; Jursa, 2010, pp. 500–623).

(A specified amount) of silver is owed by (name of the depositor), in a tied and sealed bag, entrusted to (name of the depositary). When (name of the depositor) so wishes, (name of the depositary) shall return (a specified amount) of silver, with its bag and seal intact, to (name of the depositor).

Stolper (1993) has shown that certain Late Achaemenid, Early Macedonian and Seleucid records can be understood as custody accounts, and that some related texts document their occasional conversion into interest-bearing accounts. This evidence does not contradict the distinction between deposit and loan, but rather reinforces it: only where the documentation allows for the identification of a contractual transformation can one speak of a transition from custody to an interest-bearing credit relationship. Consequently, the argument does not require denying the existence of private deposits, but rather demonstrates that their ordinary lending activity does not appear to have been based on the systematic appropriation of deposits held in custody, but rather on their own capital, family assets and commercial profits.

Whilst it is not possible to rule out all forms of intermediation involving third-party funds, the general structure ensures that these deposits remained available to the depositor at all times, without **ownership of the deposited money being transferred to the custodian, to the extent that it can be stated that irregular deposits did not exist under Babylonian law (Jursa, 2006, pp. 163–164).** The Egibi, for their part, **lent exclusively their own capital**, not that of their clients; in other words, they did not engage in credit intermediation based on irregular deposits. It is precisely for this reason that contemporary historiography has, mistakenly, denied them the title of bankers, preferring to reduce them to a diversified family business, since they did not take in deposits in order to grant loans and earn a living from the interest differential (Bogaert, 1966, pp. 105–18; Dandamayev, 1991, pp. 321–32; Wunsch, 2000, pp. 12–20, 2002a; Jursa, 2010, p. 245).

Indeed, from the modern perspective of the Austrian School of Economics, this would be equivalent to a bank with **a cash ratio of 100 per cent**; that is, an institution that does not multiply the means of payment through fractional reserve banking, but rather radically

separates the custodial function (deposits) from the credit function (lending). As a methodological caveat, however, it is worth emphasising the limitations of the available evidence. No text explicitly states that the House of Egibi maintained full reserves against all the deposits it received, nor that there was a legal provision prohibiting the use of such funds in credit operations. One must therefore avoid anachronism and refrain from drawing overly literal analogies with contemporary banking.

What can be established with certainty is through an analysis of Neo-Babylonian contractual formulas, which carefully distinguish between deposit and loan, and in the terms used for **deposits of a specific property or asset** (*nikkassu*) and for **loans** (*rēdu*), as well as between the concepts of depositing 'in a tied and sealed bag' (*hindu rakistu* or *kaniktu*) or an 'open bag' (*hindu patertu*), the contents of which have been inspected, and giving 'silver for [something]' (*kaspu ana*) and placing 'silver at the disposal' (*kaspu ina muhhi*) of someone, that is, lending it (Bogaert, 1966, pp. 105–118; Westbrook-Jasnow, 2001; Jursa, 2002a, 2002b, 2006), without the two being mixed together. These explicit formulations emphasised custody as opposed to the appropriation and investment of the funds, and the contracts stipulated the immediate availability of the deposit (Stolper, 1993; Jursa, 2006).

The distinction between loans, deposits, the custodian's liability and agreed interest must be viewed within the context of a broader Mesopotamian legal tradition, beginning with the famous Code of Hammurabi, dating from 1792–1750 BC (Price, 1927). The legal collections compiled by Roth (1997) show that Sumerian, Babylonian and Assyrian societies developed, from an early stage, rules concerning property, debts, interest, security, breaches of contract and the restitution of property. Although these collections should not be read as positive codes in the modern sense, they do reflect legal categories and normative practices that help us understand why contractual tablets could function as instruments of asset security.

The economic significance of this distinction lies in the fact that the contract was not a mere documentary formality, but rather the mechanism that defined the availability, ownership and risk associated with the transferred assets. Where silver was handed over for safekeeping, the central obligation was the return of the same

asset or its equivalent under conditions of immediate availability. Where silver was lent, on the other hand, the borrower assumed a future obligation to repay, usually accompanied by interest or a penalty. The distinction between these two arrangements prevents us from simply equating all financial activity with deposit-based credit intermediation. In the case of the Egibi, the available evidence points more towards a lending bank based on own capital, contractual guarantees and the transferability of rights, rather than a demand deposit bank used to create additional credit. In fact, lending at interest was a secondary activity for the Egibi.

Most of the loans recorded in the Egibi archive tend to be transactions in which family members charged interest at 20 per cent per annum, the standard rate in Babylon at the time (see Hudson, 2000, and Jiménez Muñoz, 2010, pp. 24–25, on interest in antiquity), and it was customary for repayment to be made in agricultural produce whose price fluctuated—such as dates—rather than in silver. Furthermore, the existence of intercalary months in the Babylonian calendar affected the calculation of interest, so that on occasions it is unclear whether it should be interpreted as a strict annual rate or as an agreed surcharge that was not always calculated in exact proportion to the time elapsed (Csabai, 2020).

The interest rate documented in these loans should be understood as part of a standard contractual practice in first-millennium BC Babylonia, rather than as an anomaly incompatible with an advanced market economy. Interest reflected the difference between the present availability of silver, barley, dates or other goods and their future return under agreed terms. In Böhm-Bawerkian terms, the existence of interest reflects the differing valuation of present and future goods, as well as the need to compensate the lender for the temporary forgoing of the availability of their resources (Böhm-Bawerk, 1884 [1986]). This interpretation is particularly apt for the Egibi case, since, as we have already indicated, their loans do not appear to stem from the appropriation of other people's deposits, but rather from their own capital accumulated through agricultural, property and commercial activities. Interest, therefore, does not appear here to be associated with a fiduciary expansion of means of payment, but rather with the productive use of real savings previously accumulated.

However, far from suffering from a lack of liquidity, the Egibis apparently prospered enormously over generations, even though it is impossible to quantify their income and turnover.¹² Consequently, the argument in favour of a practice equivalent to a cash ratio of 100 per cent rests on a structural inference: the clear terminological and legal distinction between deposit and loan contracts, the absence of evidence of a 'multiplication' of means of payment, and the fact that the firm's main profits derived from the management of land, leases and grain, rather than from maturity mismatches.

From this perspective, the hypothesis of a practice functionally equivalent to banking with a 100 per cent cash ratio must be formulated with caution: not as a literal description of an explicit regulatory regime, but as an analytical reconstruction that seeks to capture the economic logic underlying a set of contracts in which custody and lending appear strictly differentiated. Skaist (1994) has shown that these documents possess their own legal structure and terminology, with significant regional and chronological variations. The basic structure of Neo-Babylonian loan contracts denominated in silver is as follows (Westbrook-Jasnow, 2001, p. 290):

(A specified amount) of silver belonging to (name of the lender) is handed over to (name of the borrower). In the (stipulated month), (name of the borrower) shall hand over (a specified amount) of silver to (name of the lender). If he fails to do so, he shall pay an additional (number of shekels) each month.

By 537 BC, the Egibi's lending activities had reached Ecbatana, one of the Persian capitals, more than six hundred kilometres from Babylon. A prominent member of the family in the service of the Achaemenid monarchy was Marduk-nāšir-apli, who also served as an administrator and collector of taxes and customs duties during the reign of Darius I (521–486 BC). This figure lent silver to

¹² The same can be said of their counterparts and contemporaries, the Murašû of the city of Nippur, whose loans were primarily mortgage-based (Stolper, 1985, pp. 104–114).

taxpayers to enable them to meet their tax obligations, sometimes interest-free, to be repaid in dates at the end of the following harvest (from the sale of which he made a profit), and he did so with the guarantee of the royal treasury (Abraham, 2004, pp. 37–41; Wang, 2023).¹³

In addition to interest-bearing loans, credit was probably transferable throughout the history of Mesopotamia. Jursa (2006, pp. 167–169) argues that these documents could function as **negotiable** instruments and means of payment similar to bills of exchange or money orders, enabling the transfer of capital without physically moving silver.

The Egibi case empirically illustrates the principles that the **Austrian School** considers necessary for a stable banking system: **functional and moral separation between custody and credit, full backing of deposits, and contractual transparency**. Taken together, these features support a definition of ‘banking’ in a historical-functional sense: intermediation and **payment services** based on contracts, accounting and the transferability of rights, rather than merely the collection and appropriation of demand deposits in the contemporary style for the purpose of making loans.

Indeed, the Egibi house functioned as a proto-banking institution in which: 1, **moral hazard was minimal**, as there was no fiduciary creation of means of payment; 2, **liquidity was total**, as it had sufficient own funds to meet its obligations; and 3, **trust** was as important as legal coercion as a foundation of financial stability.

The significance of the Egibi in the historical context of first-millennium BC Babylonia is therefore of major economic importance. Their model reveals that, even in pre-monetary economies based on metal money by weight, **fully functional and contractually secure** mechanisms for deposit, safekeeping, lending and clearing could exist, without the need to resort to fiduciary expansion. The Egibi did not create money out of thin air, but rather managed assets and made loans using legal mechanisms that provided safeguards.

¹³ A very similar career was pursued by a contemporary named Marduk-rēmanni (Waerzeggers, 2014).

This point is crucial: the House of Egibi does not constitute a precedent for modern banking in all its aspects, nor should it be presented as having operated within a monetary system comparable to the contemporary one. Its importance lies precisely elsewhere: it demonstrates that a monetised economy, equipped with contract law, credit instruments, deferred payments and large-scale family businesses, could function without credit expansion being dependent on the use of custodial deposits. The Egibi family's experience thus suggests that banking activity—understood in a historical and functional sense as lending, payments, guarantees, money orders and wealth management—does not necessarily require fractional reserve banking. It can also be based on equity capital, accumulated savings, family reputation and strict fulfilment of obligations.

All of this may provide useful historical evidence for the modern debate on banking architectures and liquidity risk management. In the contemporary discussion on free banking and competitive money creation, Selgin (1988) argues that a banking system without a state monopoly can discipline money creation and liquidity under certain institutional conditions. White (1984), for his part, reconstructed the Scottish experience of free banking in the 18th century in light of the historical controversy over stability and regulation. However, Rothbard (1988), Sechrest (1988), Cowen and Kroszner (1989), and Dow and Smithin (1992) all rightly pointed out that conceiving the Scottish banking system of that period as free banking was a historical error, and therefore no valid conclusions could be drawn from that experience. Furthermore, Huerta de Soto (1998, pp. 467–556) has highlighted the error of pitting central banking against free banking with fractional reserves. For his part, Bagus (2010) has pointed out that it is not only fractional reserves that can produce an Austrian cycle.

6. Other activities of the Egibi family

The Egibi family did not limit its business activities to the financial sector, which, in fact, was not even its main source of income. Themselves were, first and foremost, a **diversified commercial**

enterprise, with operations spanning domestic and foreign trade, the direct management of agricultural estates, and the purchase and sale of property. The combination of these sectors allowed the family to balance risks and ensure the stability of their wealth, which explains their financial soundness—a soundness that underpinned their policy of maintaining reserves. Their risks were agricultural, commercial and fiscal in nature, rather than the systematic transformation of maturities characteristic of modern banking.

Thus, the Egibi family began their activities with the wholesale trade in agricultural produce (barley, dates, onions, wool) in the vicinity of the city of Babylon. Sūlāja, the first documented member of the family, worked with companies engaged in caravan trade (*harrānu*),¹⁴ which we have already discussed when referring to the Paleo-Assyrian trade of Kanesh.

Like other contemporary merchant houses, the Egibi established contacts and eventually became actively involved in long-distance trade, extending their interests to commodities such as slaves, livestock, beer and wine, which were of great value in the Mesopotamian urban economy. Following the Persian conquest of Babylon, they expanded their operations into **Media, Elam and Susa**, even maintaining commercial agents stationed in those territories for long periods.

Generation after generation, the Egibi invested in properties that generated rental income, accumulating sixteen urban properties in the cities of Babylon, Borsippa and Kish (Wunsch, 1999),¹⁵ and more than a hundred slaves, who were engaged in all manner of specialised activities, ranging from estate management to the production and sale of beer. Baker (2014) has shown that the study of urban form—streets, residential neighbourhoods, dwelling size and household structure—enables us to reconstruct differences in status, wealth-building strategies and the economic uses of domestic space. In this context, the Egibi's urban houses were not merely residences, but assets capable of generating income, serving as col-

¹⁴ See Joannès 1999 for the Neo-Babylonian period.

¹⁵ New texts concerning the rents from these properties have recently been published by Zawadki (2024).

lateral, accommodating dependants or slaves, and reinforcing the family's social standing within the city.

They also acquired **uncultivated or unproductive land and transformed it into productive date palm plantations**, demonstrating long-term planning. These were mainly located on the outskirts of Babylon, but also in the vicinity of the cities of Borsippa and Kish. These plantations were either managed directly or leased out, and the documentation relating to them forms a significant part of the archive. Over a period of some sixty years, records show that the Egibi acquired around 67.5 hectares of land in exchange for some **160 minas** (around **eighty kilograms**) of silver (Wunsch, 2000, pp. 21–178).

At the same time, the Egibi, like the Murašû, were involved in the maintenance of canals and irrigation ditches, and in the leasing of irrigation rights, which were essential for ensuring the productivity of the land in the region's arid climate. They also managed estates belonging to officials of the royal court (Abraham, 2004, pp. 127–129), and, more generally, they had dealings with officials and scribes from the palace and the temple, leasing, for example, onion crops belonging to the Esagila temple, and even flocks of sheep owned by the prince and future king Neriglissar (560–56 BC) in Babylon (Wunsch, 2002b).

Finally, it should be added that, in addition to their commercial activities, some of the most prominent members of the House of Egibi were simultaneously in the service of the kings of Persia; that is to say, they were officials, whilst also acting as tax collectors and contractors for the supply of goods to palaces and garrisons. For example, Nabû-ahhe-iddin was trained as a scribe and lawyer, and served as a scribe to the Babylonian king Nebuchadnezzar II (604–562 BC) for thirty years, and later as a judge under King Nabonidus (556–39 BC). **Itti-Marduk-balāṭu was a tax collector as well as a contractor for military supplies during the reigns of Cyrus the Great (559–30 BC) and Cambyses (530–23 BC).** As we have already noted, Marduk-nāšir-apli served as an administrator and tax collector under Darius.¹⁶ Even so, the Egibi acted as **independent**

¹⁶ Marduk-nāšir-apli faced a claim to his inheritance from two younger brothers; his statutory share comprised sixteen urban properties in Babylon, Borsippa and Kish,

entrepreneurs operating within the royal sphere in their business dealings, pursuing their own profit-making aims and investment strategies.

The case of the Egibi house exemplifies an early form of **integrated family capitalism**, combining liquidity, diversified investment and institutional stability. Their commercial practices reveal economic calculation within a free market, business planning and intergenerational capital accumulation. Far from conforming to Polanyi's redistributive paradigm, their activities form part of the vast body of documentary evidence demonstrating the existence of **developed financial and credit markets** in the Neo-Babylonian period, underpinned by trust, contractual law and private property—which *in itself* refutes any interpretation that seeks to reduce Mesopotamian trade and finance to mere extensions of the temple or the palace.

7. Conclusions

Our article compiles evidence that substantially challenges the Polanyian paradigm and theories regarding the purely non-commercial origin of money. It also presents a new, well-documented historical case to discuss the viability of banking with a **100 per cent reserve ratio**, a topic that is usually discussed in the abstract. The documentary evidence shows that the Egibi firm did not lend out or invest funds deposited by third parties, but rather its own capital, derived from its commercial activities.

This practice was grounded in the legal nature of **the Babylonian deposit contract**, which entailed a strict duty of care. The depositary did not acquire ownership of the deposited goods—be they silver, grain or any other commodity—but merely held them in temporary custody. In the event of loss or misuse, the depositary bore full liability; temples served as the main places of deposit, as religion fostered trust.

Thus, the Babylonian financial system was based on a clear **separation between savings and investment**: loans were financed

over a hundred slaves, and a proportionate share of the profits from all his ongoing commercial activities.

from the lender's own capital or through specific commercial partnerships, not from funds deposited by third parties. From a theoretical perspective, this confirms the historical feasibility of a banking system with full reserves, in which credit intermediation does not depend on the creation *ex nihilo* of fiat money, but on **accumulated real savings**.

The financial activities of the Egibi house allow us to assert, with the necessary caution given the available evidence, that there were historical forms of lending banking that were functionally compatible with a full-reserve regime. This was neither modern banking nor a regulatory system explicitly designed around a 100 per cent reserve ratio, but rather an institutional practice in which deposits, custody, lending and own capital were clearly differentiated. From the perspective of the Austrian School's business cycle theory, this thought-provoking case demonstrates that **full-reserve banking** can be efficient even within the context of a pre-industrial market economy, provided there is a reliable legal infrastructure and a sound monetary base (in this case, silver by weight), and does not necessarily require the fiduciary creation of means of payment or the use of demand deposits for lending.

In the context of Neo-Babylonian and Achaemenid Babylonia, between the 7th and 5th centuries BC, this family carried out banking and commercial activities characterised by a **clear separation between equity capital and borrowed funds, active participation in trade and agriculture, and loans** based exclusively on their own accumulated savings. In the absence of fractional reserve banking, credit expansion could only take place through the mobilisation of the genuine savings of the family itself and its partners—that is, through the reallocation of existing real resources (agricultural capital, slaves, grain and date stores)—and not through an accounting expansion of means of payment. This suggests that any possible cycle of credit over-expansion and contraction, had it occurred, would have been closely linked to the availability of the family's capital in response to climatic, political or fiscal variations, rather than to the internal dynamics of the banking system, in line with what one would expect from a regime of high reserve requirements.

From an institutional perspective, the House of Egibi represents a unique example of **ethical and prudent banking**,

founded on clear legal principles and on a conception of trust as an essential pillar of financial relations. This implies that the Babylonian financial system did not need to resort to the **secondary creation of money** or to fiduciary expansion, appropriating depositors' money. Loans were drawn from the lenders' **real savings**, generated through actual commercial activities, which limited systemic risk and preserved monetary stability. This practice, grounded in respect for private property and contractual transparency and rigour, anticipated by more than two millennia the principles that the Austrian School of Economics upholds as the foundations of a stable and ethical financial order.

In this regard, the experience of the Egibi provides a historical example that lends credence to the thesis put forward by Huerta de Soto (1998): a banking system based on full reserves can operate effectively, guaranteeing both the liquidity of deposits and credit discipline. Clearly, this historical example demonstrates logical and functional viability, rather than an optimal model of universal validity that can be extrapolated to contemporary economies, insofar as many of Rallo's (2019) objections depend on features of the modern economy that did not exist in ancient Babylon (central banking, fiat money, etc.). The economic analysis of a 100 per cent reserve system compared with a fractional reserve system should be examined in future research.

Conflicts of interest

The author declares that he has no conflict of interest and has not received any funding that may have influenced the drafting of the manuscript or the decision to publish the results of this research.

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ARTIFICIAL INTELLIGENCE WILL NOT BE ENOUGH

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1. Introduction

What is the best way to use the dispersed knowledge among all people? This is the question posed by Hayek in his essay “The Use of Knowledge in Society”, which turns out to be one of the fundamental problems to be solved in Economic Policy. He goes on to say that “the degree of efficiency of these systems depends mainly on the most complete use of the existing knowledge that we can expect”¹

From the Austrian School of Economics, the market is understood not as a place, physical or virtual, where goods or services are exchanged, but as a spontaneous, complex, and dynamic process. A network in constant motion, where people, according to their values, tastes, preferences, knowledge, and expectations of the future, exchange knowledge. Each person participates in the *catallactic* process in a relatively very small fragment compared to the immense network of dispersed knowledge in all humanity.

This knowledge is embodied, materialized, or made tangible in goods and services, which are ultimately what is exchanged. According to Mises, *lato sensu*, society and market are synonymous. Both are processes in which knowledge plays a fundamental role. The

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¹ Hayek, F.A. (1945) “The use of knowledge in society”. *American Economic Review* XXXV N° 4. In reference to possible economic systems.

exchange of values, based on knowledge, is ultimately expressed—never measured—in what we call market prices.

As Benegas Lynch (h) points out, saying “*free price*” is redundant. Price, as such, when not intervened, reflects in the market price system the value structure of people. If it does not, then it is simply a number dictated by some governmental authority, which is of no use and indicates little or nothing².

Now then, these subjective valuations are once again supported on a base of knowledge that human beings manage and which, following Huerta de Soto, we could classify into Type A and Type B knowledge. Type A knowledge is what we call practical, tacit, dispersed, and of unique events. It relates to *know-how* and is not articulable. On the other hand, Type B is that which can be centralized, articulated, and which we call scientific knowledge. The latter is the type of knowledge handled by Artificial Intelligences. Of course, both have reciprocal influence. Type A knowledge influences B, and B influences A.

A machine cannot feel, nor create new means or ends. Artificial intelligence does not naturally meet the prerequisite of human action, which is to feel a state of need. Therefore, the possible prerequisites must necessarily be previously loaded by programmers.

In *Human Action*, Ludwig von Mises illustrates that only the individual thinks and acts. Thinking is an individual task, and knowledge can only be acquired, made one’s own, by rethinking it anew. Mises states: “Only he knows how to arrange his multiple items of knowledge and experience into a consistent system.” He later continues developing his idea and explains that “Every action is always based on a definite idea about causal relations. In perceiving a causal relation, the subject formulates a theorem. Action without thought and practice without theory are inconceivable... It is always the individual who thinks... reasoning itself is invariably an individual task.”³

Finally, on the role of ideas, Mises says: “Tradition preserves and transmits ideas, urging later generations to continue the

² Benegas Lynch (h), A. (2011) *Fundamentos de Análisis Económico*. Grupo Unión. Buenos Aires.

³ Mises, L v. (1949) *La Acción Humana*. Unión Editorial. Madrid.

intellectual task. Nevertheless, man has no other way of appropriating the thought of his precursors than by thinking it over again.”⁴ Without a doubt, “The history of thought and ideas is a process that unfolds from generation to generation. The thought of later ages springs from that of earlier ages.”⁵

We will see below how the problem that arose in previous centuries, with catastrophic and anti-civilizational results, could today provoke the deification of Artificial Intelligence, thereby diluting progress toward a better world.

2. On the Problem of Extreme Rationalism

“The enthusiasm that Physics (and mathematics) generated in academia was excessive. Everything worked. Problems could be solved: mechanics, heat, waves, sound, light, magnetism, electricity—everything mastered by the same technique. Physics and mathematics were relentless and could solve any human problem. It seemed that the way to solve the world had been discovered. The frenzy was absolute.”⁶ Many times, the enthusiasm over certain discoveries, combined with the imagination and potential of brilliant minds, leads human beings to believe themselves omnipotent.

René Descartes sought a method that could absolutely dominate human knowledge, based on human reason. His method lay in mathematics, since for Descartes there was concordance between the real world and mathematical language. Therefore, any phenomenon would be predictable for one who knows the mechanical laws of mathematics and has the relevant information. This vision necessarily leads to a universal determinism, and predictions could be solved through mathematical equations. There arises an exaggerated faith in human reason, which now appears capable of solving all the world’s problems mathematically. It is often said,

⁴ Ibid.

⁵ Ibid.

⁶ Quoting Huerta de Soto in: Di Grigoli, B. (2022) “The Dynamic Laffer curve” *Procesos de Mercado: Revista Europea de Economía Política*. Vol. XIX N° 2 2022.

too, that mathematics is the language in which the universe is written.

On the other side, moderate rationalism tries to recognize the limits of the human mind. Immanuel Kant acknowledged the impossibility of knowing everything that can be known. Against this, idealism arose, as a Hegelian current prevailing in Germany, which rejected such limitations of human reason and believed that the human being is a sufficient source to know everything in its entirety. Curiously, Hegel himself said that the state is a supra-personal reality of which the individual is a mere accident.⁷

Later, continuity came through Auguste Comte and Positivism. This current gathers the intellectual errors of empiricism, extreme rationalism, and idealism. First, the excessive enthusiasm for the empirical sciences—Physics and Mathematics. From there, the urgent need to apply the method of Natural and Exact Sciences to the Social Sciences, despite the methodological error this entails. From Positivist thought derives the creation of a new religion, where God is society. A society that can be conceived, designed, and improved through the establishment of objective laws that govern its order and progress. Thus, human individuality and Liberty are destroyed. This constructivist vision believes, in short, that reason can build a better society, creating institutions out of nothing, ignoring the evolutionary character of Social Institutions. The scientist, now called a *Social Engineer*, is capable of creating a more efficient and just society. His source of unlimited knowledge may be historical facts and his own human reason.

Ultimately, following Meseguer⁸, if the foundation of the social engineer lies in historical laws, then we are facing Historicism, and its proponent could well be called a historicist social engineer. If his pillar is human reason, we are facing extreme or Cartesian rationalism, and we will call him a rationalist social engineer. According to Karl Popper in *The Open Society and Its Enemies*, all of these could ultimately be classified as historicists.

⁷ Benegas Lynch. *Ibid.*

⁸ Martínez Meseguer, C. (2009) *La teoría evolutiva de las Instituciones. La perspectiva austríaca*. Unión Editorial. Madrid.

It can be observed how, in some way, everything ends up deriving into the scientific, articulable, and storable historical data—the type of knowledge handled by Artificial Intelligence.

The study of socialist epistemology, that is, the kind whose characteristic is based on a society whose economy is entirely centrally planned, makes us realize that at least, in this case, fertile ground was provided by the following issues: the exaggerated consideration of human reason as a creationist instrument; the lack of recognition of the importance of Evolutionary Social Institutions; the neglect of methodological individualism, whose omission removes the preeminence of the human being from the center of everything and leads to hypostases and anthropomorphisms; the mystery of human existence itself, which can cause anguish and the need for guidance, direction, or leadership in the face of the ineradicably uncertain character of the future and may drive humans to worship false gods.

These issues, which resulted in the most fervent socialism, still persist in different societies and serve as the same preconditions for the frenzy now aroused by the irruption of Artificial Intelligence.

3. The New False God: Artificial Intelligence

It is sensible to be astonished by the results and potential that Artificial Intelligence represents, in the same way that human beings marvel at seeing a Boeing 747 of almost 450 tons take flight. But one thing is the natural amazement that technological innovations can provide, and quite another is to elevate one of them to the level of a deity. In the case of AI, we must first understand that, unlike the human mind, it works with centralized, articulable, and mathematized knowledge. And this is not the only type of knowledge that human beings master.

Type A knowledge is that subjective, practical, dispersed, tacit, non-articulable knowledge of unique events. This knowledge is linked to human experience and life events. Type B knowledge is objective, scientific, centralized, articulated, and of class, as previously mentioned. Artificial Intelligence is

nothing more than a computer program that works with Type B knowledge. When the engineer-programmer must design the inputs and outputs, they must determine, categorize, conceptualize, and define their limits and scope. This is knowledge that necessarily must be articulable in order to later transfer it into AI software. Technical or objective knowledge (Type B) helps the human being, serving as a catapult⁹ to multiply Type A knowledge, and thus create more and better means and ends. In absolute terms, AI cannot surpass the human being and does not have creative capacity in a dynamic sense. This does not mean it cannot generate music, text, or images, but from this it does not validly follow that it can create new means and ends in the dynamic sense¹⁰.

At present, the real problem is not so much this, but rather the belief of people themselves about what AI is and will be capable of, and the attitudinal consequences for human beings when facing this tool.

4. The Problem: “Because AI said so”

In addition to what was mentioned above, regarding the epistemology that provides fertile ground for elevating AI to the divine plane, part of the problem arises, first, from not understanding how Artificial Intelligence truly works and what type of knowledge (of those mentioned above) it handles.

Another part of the problem is the repetition loop it generates, which will reinforce certain beliefs in popular knowledge. For this second issue, two serious and equally important things happen. On one hand, there is the matter of human reason and formal logic, which serve to determine which reasoning is valid and which is not. Only the human being can determine whether a system of reasoning and beliefs is coherent and consistent as a whole, or else recognize invalid points. At the same time, human

⁹ Huerta de Soto, notes taken in his 2020/2021 classes.

¹⁰ For a further develop of this idea: Di Grigoli, B (2024) *Artificial Intelligence vs. Human Intelligence: An Analysis of Creative Processes*. Unión Editorial, Madrid.

beings continue to incur reasoning errors such as fallacies. In this case, *argumentum ad verecundiam*, the fallacy of authority becomes relevant when not knowing—or rather believing—that Artificial Intelligence contains all human knowledge concentrated. Of course, this is not so.

AI contradicts itself permanently. For example, one might ask it to explain the benefits of *Social Justice*, and it will provide an elegant response with the appearance of coherence, but which, for the truly scholar, cannot withstand deeper analysis. At the same time, it can contradict itself if asked again and be made to explain why what it just said is not so. Thus, it will depend on who uses the tool, how far they go with it, and above all, whether they truly know its functioning and the historical character of the information that serves as inputs.

AI cannot create new knowledge in a dynamic sense. At this point, one might ask: Could it have discovered *The Regression Theorem of Money* on its own, as Ludwig von Mises did?

We must remain attentive, alarmed, and allow ourselves to doubt every time that, after a declaration or value judgment, someone states: “because AI said so.” This is nothing more than another fallacy of authority. It will be argued that such reasoning or declaration is true or correct because it is supported by someone (in this case AI) with prestige or intelligence. Worse still, it will be considered that AI itself possesses all current and centralized human knowledge, and therefore its response is the product of the collision of confronted human knowledge. This idea will be unfortunately reinforced when the so-called *Singularity* becomes more tangible or real. That is, an Artificial Intelligence capable of everything, overcoming the obstacles that the current one presents, and considered absolutely superior to the human mind in every possible aspect.

The second issue, which relates to the problem of the repetition loop, can be framed in what the Spanish philosopher and writer José Ortega y Gasset defined in his work *The Revolt of the Masses*: the mass man.

As human beings increase their material well-being—undoubtedly thanks to technological progress embodied in goods and services that facilitate the achievement of their ends—they tend to

rely more on them and trust in their results. This, in many cases, ends up making them forget, or even never learn, certain knowledge. For example, with the incorporation of calculators, many people have forgotten how to divide by three digits. The solution: there is no other alternative but to trust the result presented by the device.

In this same sense, Ortega y Gasset expresses that the mass man lives a passive life, settling for what is given¹¹. He argues that it has nothing to do with a matter of social class, but rather with an attitude toward life itself. The problem lies in the fact that material well-being makes him feel satisfied and secure with what he has, and little by little he renounces values related to demand, effort, and creativity—those that ultimately drive progress. The mass imposes a uniform, mediocre vision, where the creative tension that generally arises from the collision of ideas disappears. The danger lies in the fact that more conformist human beings exist, where the normal replaces the excellent.

Of course, this does not contradict the idea that any progress allowing a task to be performed more efficiently frees up resources and creativity to expand the frontier of possibilities. The real problem lies in adopting a conformist attitude toward what is given and, in essence, losing critical capacity and the values of self-improvement. The mass man is satisfied with his life, his current level of knowledge, and is inclined—or even compelled—to believe everything that technology and progress in general serve him on a platter. Little by little, he loses his skepticism and his capacity to question.

“It is here where asking questions proves essential for exercising a healthy mind. To question is to cast doubt on what someone has stated; and for that we use reasoning, evidence, foundations, new questions, and hypothetical scenarios, among other things. The word to question comes from *quaerere*, Latin for ‘to seek the truth.’ But what truth would we seek if everything is assumed to be valid and true?”¹²

¹¹ Ortega y Gasset, J. (2006) *La rebelión de las masas*. Ed. Austral. España.

¹² Di Grigoli, B (2021) “¿Why Questioning?” <https://questionar.com/por-que-questionar/>

5. Ideas and Beliefs

If human beings find themselves in a position of comfort, inclined to believe, then we must understand the leading role of ideas and beliefs and how they structure people's lives. Jordan Peterson, in his work *Maps of Meaning: The Architecture of Belief*¹³, states that beliefs organize human experience and guide human action. They are interpretative frameworks without which the world would be a chaos of disconnected and impossible-to-process data. Beliefs not only describe reality, they structure it; they give direction to individual life. Without them, according to Peterson, human beings would be disoriented. Friedrich Hayek explains in *The Sensory Order*¹⁴ that if there is no classificatory capacity, what is observable—or reality—would be nothing more than meaningless information.

With these ideas from the mentioned authors, we could then consider beliefs as the structure of a building, which allows it to contain and support a certain amount of knowledge depending on its weight and shape. According to this, knowledge may either not fit into a given architecture of belief, or it may end up breaking it, giving rise to a new one.

The next question arises: does this explain the permanent tendency of human beings to seek certainties and the need to believe in certain things? Very likely.

In this sense, Allan Walstad, professor at the University of Pittsburgh, states that: "...these are unconscious neurological processes acquired through evolution and genetic inheritance, whose purpose is to facilitate the development of our actions, reducing the anguish of having to decide on the basis of incomplete knowledge, which facilitates our decision-making capacity and gives us a sense of security in an uncertain and changing environment..."¹⁵ Believing in something can be a mechanism to reduce or mitigate the anguish of human existence itself, uncertainty, and the impossibility of knowing everything.

¹³ Peterson, J (1999) *Mapas de sentidos*. Ed. Ariel. España.

¹⁴ Hayek, F (2011) *El Orden Sensorial*. Unión Editorial, Madrid.

¹⁵ Martínez Meseguer, C. Ibid.

But now, many believe that this “everything” is concentrated in Artificial Intelligence itself.

Another major problem closely tied to beliefs arises when no one questions anything, someone imposes censorship, or everyone thinks the same. The result may be the same: intellectual stagnation. And therefore, the advancement of human civilization comes to a halt. A point of connection can indeed be reached between Freedom of expression and the fact of not questioning, where all people come to believe in the same “truth.” For humanity to enjoy good health and well-being, John Stuart Mill lays out four reasons in his essay *On Liberty* why Freedom of opinion and expression must never be curtailed. Mill says:

“Any opinion that has been silenced (censored, as we would say today—#cancelculture) might be true, and to deny it is to claim infallibility. Furthermore, even knowing that the censored voice may fall into error, it could still contain a portion of the truth. And Mill argues, only through the collision of opposing viewpoints can the rest of the truth come to light. But Mill goes further, adding that even if the opinion of the majority (the one with the power to crush the minority group) were the whole truth, if it is upheld as the sole voice, it risks becoming prejudice and thus turns into a claim with little real understanding of its rational foundations—unless it is constantly challenged by opposing reasons. In other words, it risks becoming a mere doctrine, which then weakens and ends up being professed only formally.” He then concludes: “In this way, such truth, by being unquestionable, is ineffective for the growth of any real, sincere conviction based on reason.”¹⁶

Conviction weakens, reason ceases to be exercised, and the comfortable tendency to live and believe without questioning is reinforced. Without a doubt, language plays a central and transversal role in all this. That’s why AI developers aspire to dominate this field and make their machines capable of processing natural language in the same way humans do. Here too lies another danger, one related to language. In his 1895 lecture, Henri Bergson

¹⁶ Di Grigoli, B. Ibid. quoting J.S. Mill in “¿Why Questioning?”

said: “One of the greatest obstacles to the Freedom of the spirit, we said, are the ideas that language offers us already made.”¹⁷

6. Theorem and Conclusion

When a company leverages itself operationally or financially—depending on whether through fixed costs or third-party debt—the Leverage effect shows how the operating result changes when variations occur in the level of sales. We say that profit increases or decreases more than proportionally, amplifying the result when sales rise and provoking greater losses when they fall.

Following this concept, one could formulate the following analogy: *Leverage-AI*. Artificial Intelligence will undoubtedly be able to solve many of humanity’s problems. But it will address problems that lie within what Huerta de Soto conceives as the static dimension of efficiency. This, in turn, frees resources and leaves human beings to resolve the other side of the coin—the dynamic aspect. That is, the possibility of employing the innate creative and entrepreneurial capacity of human beings to discover new ends and means, and thus expand the frontier of possibilities to inconceivable limits.

However, if societies rely—leverage themselves—too heavily on Artificial Intelligence without caution or safeguards, it may well be that the positive outcome of such leverage is greatly amplified, or conversely, that social disaster is profoundly magnified.

The solution is not to be found in regulating AI, as the European Union intends to do, but rather in elevating all those tools and characteristics that make us human. In the last century, human civilization came to know the ultimate consequences of extreme rationalism and constructivism—both of which revealed the true statist essence (whether Soviet socialism or fascism). Bearing this lesson in mind, human beings must become aware of the enormous power that AI represents and rely on moderate reasoning, recognizing its limitations, on the coherence of the systems

¹⁷ Bergson, H. (1895) “The Intelligence”, speech. Sorbone, France, pronounced 30/07/1895

formulated, and on a system of values that define the framework of human action.

According to Benegas Lynch (h)¹⁸, Liberalism is a necessary but not sufficient condition for a better world, and it is a conception that requires understanding certain basic moral principles. Similarly, Professor Huerta de Soto states that: “there are a number of ethical and moral principles of great importance for the dynamic efficiency of social processes, in relation to which the following paradoxical situation arises: their lack of observance at the individual level carries an extremely high cost in terms of dynamic efficiency, but, on the other hand, attempting to enforce them through the coercive power of public authorities also generates severe inefficiencies from the dynamic point of view.”¹⁹

With the rise of mass media, information can reach hundreds of thousands of people within seconds. The benefit provided by the underlying technology is very high—just as the associated risk is. Humanity had to learn to be cautious and skeptical of everything consumed through mass media. In the same way, the *Mass Man* cannot relax into a lifestyle marked by credulity and the absence of questioning—in sum, by the acceptance of what is given. Quite the opposite. AI will not suffice to create a better world.

After all that has been laid out, one may formulate a possible theorem, which could be the following: if new discoveries and innovations emerge based on the use of technology leveraged by Artificial Intelligence, it will be necessary for human beings to make an even greater effort to leverage and reconnect with their roots—relying on moderate human reasoning and on an ethical and moral system—if they wish to reap the advantages of new technologies and ensure such benefits are realized with caution and without setbacks.

Conflict of interest

The author declares that he has no conflict of interest.

¹⁸ Benegas Lynch, A (h). Ibid.

¹⁹ Huerta de Soto, J (2004) *The theory of dynamic efficiency*. Procesos de Mercado.

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MARIO VARGAS LLOSA AND THE AUSTRIAN SCHOOL OF ECONOMICS

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1. Introduction

Mario Vargas Llosa's entry into Peruvian politics in the late 1980s constitutes a paradigmatic example of the intersection between thought and action in Latin America. Following a distinguished career as a novelist and essayist, his foray into the political arena was driven by the radicalization of statism under the administration of Alan García (1985-1990), whose turning point was the controversial bank nationalization project of 1987. In response to this perceived threat to economic freedoms, the Movimiento Libertad emerged as an initiative aimed at promoting the principles of classical liberalism and offering an alternative program amid the crisis of the interventionist model and the vacuum of political representation.

This study addresses three interrelated dimensions. First, it examines Vargas Llosa's intellectual conversion to liberalism, marked by the decisive influence of Friedrich Hayek. Second, it analyzes the historical context that explains the emergence of the Movimiento Libertad as a response to the decline of the statist paradigm. Finally, it offers an analysis of *25 Lecturas sobre la libertad* (1989), a key anthology in the doctrinal dissemination of the movement, highlighting the influence of the Austrian School. It is argued that, despite its electoral defeat, this effort laid the foundations for the market-oriented reforms that would transform the Peruvian economy in the following decade.

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Methodologically, this article adopts a historical-analytical approach based on a critical review of primary sources—such as essays, interviews, speeches, and doctrinal compilations—and secondary sources, including studies on the intellectual and political evolution of Mario Vargas Llosa. The objective is to reconstruct the author's ideological trajectory from socialism to liberalism, as well as to contextualize the emergence of the Movimiento Libertad and the publication of *25 Lecturas sobre la libertad* (1989) within the broader process of economic and cultural transformation in Peru at the end of the twentieth century.

2. Intellectual evolution toward liberalism

During the administration of Manuel Odría (1948- 1956), while studying at the National University of San Marcos (Lima), Mario Vargas Llosa was an active member of the clandestine communist group known as Cahuide. Like other young revolutionaries, he participated in the distribution of propaganda, attended clandestine meetings, and promoted the revolutionary cause, which they then conceived as a redemptive process (Sabino, 2015, p. 90).

This initial ideological episode not only attests to Vargas Llosa's youthful adherence to the redemptive imagery of Latin American Marxism but can also be interpreted as a stage of political socialization within the culture of intellectual commitment that characterized university generations in the mid-twentieth century. As Raymond Aron (1957) observes, postwar intellectuals tended to conceive of political action as a moral extension of literary creation, a phenomenon that, in Latin America, took the form of the «militant writer». In this context, Vargas Llosa's experience in Cahuide marked his early appropriation of a moralistic ethos with revolutionary roots, from which he would later distance himself to redefine freedom as a moral value rather than an ideological program.

After leaving the group, Vargas Llosa moved toward Christian Democratic positions and, during the 1960s, adopted the thought of Jean-Paul Sartre as his principal intellectual framework. During this period, he fervently supported the Cuban Revolution, a position he maintained until the Padilla affair—an episode that marked

his critical distancing from Castro's project (Arreola, 2020, p. 86). Prior to this incident, he had the opportunity to visit Moscow in 1968, invited by the Soviet Union to present the translation of *The Time of the Hero*. Upon arriving in what he considered the pinnacle of socialist civilization, he was deeply disillusioned to witness the harsh censorship that prevailed in the former superpower, as well as the invasion of Czechoslovakia that same year. These events marked the beginning of his doubts regarding his previously idealized image of the USSR (Buynova & Aguirre, 2024).

Vargas Llosa's distancing from socialist ideas can be understood as a process of «progressive disenchantment with commitment», in the sense proposed by Boisard (2019), who describes the writer's evolution from sartreanism to a liberal humanism influenced by Albert Camus and Karl Popper. This transformation entailed a shift from an ethic of collective redemption to one of individual responsibility. His engagement with camusian existentialism centered on moral conscience in opposition to dogma and Popper's critical rationalism (1963), which denied the possibility of ultimate truths and emphasized the conjectural nature of knowledge, consolidated in Vargas Llosa a lasting distrust of any form of thought that seeks to present itself as absolute truth.

This distance did not, however, entail an immediate abandonment of leftist struggles. As Boisard (2019) notes, his break with youthful sartreanism was consolidated through a critical rereading of Albert Camus, initiating a process of intellectual self-criticism that would culminate in the 1980s with his enthusiastic defense of the liberal-conservative policies of Thatcher and Reagan (p. 56). The transition between these two stages reflects an evolution that was more philosophical than partisan, a shift from utopian faith to a skeptical view of power and history.

Vargas Llosa himself (1992) acknowledged the decisive influence of three thinkers on his political evolution. In his own words, it was during the 1970s and 1980s, as he overcame the illusions of socialism, that he discovered in Karl Popper, Friedrich Hayek, and Isaiah Berlin the intellectual tools to reconcile freedom and equality, seemingly contradictory values within a democratic system. This theoretical triad became the foundation of his modern liberal vision: Popper provided an anti-dogmatic epistemology, Berlin a

philosophy of pluralism, and Hayek an economic and legal framework for the defense of individual freedom.

Cole (2016) emphasizes how reading Berlin and Popper while writing *The War of the End of the World* (1981) furnished Vargas Llosa with arguments against his former socialist convictions. He particularly valued Berlin's skepticism toward final answers, that Western tendency to seek unique, definitive truths, which Berlin regarded as a source of historical tragedies. From the Latvian thinker, he adopted the defense of ideological pluralism as an antidote to dogmatism (p. 136). Likewise, Vargas Llosa (2000) acknowledged the key role of Henry Hardy and Michael Ignatieff in preserving and disseminating Berlin's legacy, without whose work it would have remained «a ghost without flesh and bones» (p. 6).

He also assimilated Popper's principle of falsifiability and the notion of provisional knowledge, which he interpreted as the philosophical foundation of democratic tolerance. For Vargas Llosa, this epistemological perspective demonstrated that only through dialogue and the confrontation of ideas can one distinguish between error and truth (Vargas Llosa, "Karl Popper al día". *Vuelta*(184), 24-33, 1992, p. 25). In this way, Berlinian skepticism and Popperian critical rationalism became antidotes to dogmatism and fanaticism, phenomena that Vargas Llosa identified as the principal threats to individual freedom, and which recur throughout his literary and essayistic work (Cole, 2016, p. 138).

Taken together, this intellectual trajectory reveals an epistemological rather than merely ideological conversion, a long «road to Damascus» that led Vargas Llosa from militant socialism to democratic liberalism. This transition was not simply a political shift, but rather the affirmation of a critical stance toward power. For Vargas Llosa, liberty ceased to be a partisan slogan and became a civilizational principle grounded in pluralism, skepticism, and tolerance.

3. The influence of Friedrich Hayek and the Austrian School

Unlike other intellectuals who abandoned collectivism, Vargas Llosa deepened his critique from a political economy perspective,

drawing heavily on the work of Friedrich A. Hayek, whom he regarded as one of the most lucid thinkers of the twentieth century. Following the Austrian economist's death in 1992, Vargas Llosa described him as a «universal citizen» whose historical merit lay in having foreseen, and later witnessed, the failure of statist projects (Vargas Llosa, "Karl Popper al día". *Vuelta*(184), 24-33, 1992).

In *The Call of the Tribe* (2018), Vargas Llosa devotes a substantial section to Hayek, structured into five parts. After a biographical and intellectual overview, the first section examines Hayek's controversy with John Maynard Keynes, portraying it as an unequal confrontation between a marginal thinker and the dominant intellectual consensus. Vargas Llosa highlights particularly the 1931 debate, when Hayek criticized Keynes's Treatise on Money in the journal *Economica*, marking the beginning of a confrontation he characterizes as «the quixotic struggle of a man with firm convictions against the dominant culture of his time» (p. 69). Drawing on Robert Skidelsky, he also invokes Isaiah Berlin's distinction between «foxes» and «hedgehogs», —Keynes, the fox, ranged across multiple domains of knowledge, whereas Hayek, the hedgehog—, focused his thought on a single overarching warning: the dangers of central planning.

The author underscores the paradox that Keynes praised *The Road to Serfdom* (1944), despite disagreeing with its rejection of intermediate positions. Nevertheless, Keynesianism came to function as an «incontrovertible axiom» for much of the academic and political world, while Hayek and Ludwig von Mises remained on the margins defending classical liberalism (Vargas Llosa, 2018, p. 70). Hayek's broader academic recognition would only be consolidated after he was awarded the Nobel Prize in 1974.

Vargas Llosa also emphasizes the transdisciplinary nature of Hayekian thought, whose contributions extend beyond economics into political philosophy, epistemology, and psychology. At the same time, he notes tensions with democratic values, citing the controversial assertion that a liberal dictatorship might be preferable to an interventionist democracy (p. 71).

The reference to the Mont Pelerin Society allows Vargas Llosa to reconstruct Hayek's critique of constructivism, whose roots he traces back to saint-simonianism. According to Vargas Llosa,

attempts to «transform a perfectible society into a perfect one» through social engineering led to the major totalitarian projects of the twentieth century. In contrast, hayekian liberalism defends the intrinsic link between economic freedom and the rule of law, emphasizing the role of an independent judiciary in safeguarding contracts and private property (pp. 72-73).

Hayekian individualism—understood as personal sovereignty in opposition to collectivism—is articulated through the distinction between spontaneous orders (kosmos) and constructed orders (taxis), the latter being as potentially dangerous as centralized economic planning (p. 74). Within this framework, constructivism emerges as the principal antagonist, threatening liberty through egalitarian projects that seek to replace organically evolved institutions with rationally designed systems. Vargas Llosa further notes how this critique extends to the welfare state and even to majoritarian democracy, against which Hayek proposed his utopian model of «demarchy», based on a separation of legislative functions (p. 75). The recollection of Vargas Llosa's meeting with Hayek in Lima in 1979, along with the closing remark that, «Every liberal must be an agitator», serves to connect theoretical reflection with political practice (p. 76).

In the second section, Vargas Llosa analyzes *The Fatal Conceit* (1989), highlighting its philosophical dimension. Rather than a purely economic text, he interprets it as a treatise on civilization in the tradition of Adam Smith and John Stuart Mill. In this work, Hayek attributes human progress to «spontaneous order», an evolutionary process through which institutions such as trade and contract contributed to civilizing humanity, transforming «the beast into a citizen» through moral norms derived from historical experience (p. 77).

Constructivism appears as the antithesis of this process, representing social engineering projects that, when imposed coercively, give rise to dictatorship and economic failure. Vargas Llosa explains Hayek's distrust of intellectuals, whose rationalist tendencies often lead them to reject the market and promote utopian systems such as Marxism. He contrasts this constructivist arrogance with liberal humility, which values emergent orders in which the decentralized actions of individuals produce outcomes superior to any centrally designed plan (p. 78).

Accordingly, one of the central aims of Hayekian thought is to dismantle the various forms of ideological collectivism and to vindicate a realistic political vision grounded in human nature and social complexity. Vargas Llosa interprets this position as a defense of a politics of facts against utopian illusions that frequently yield dangerous consequences (Massini-Correas, 2019). At the same time, he warns that phenomena such as judicial corruption, the primacy of image over substance, and recurrent financial crises reveal how contemporary capitalism has, in some respects, betrayed the principles of fair competition and public morality that Hayek considered essential (Vargas Llosa, 2018, pp. 78-79).

This interpretation has generated criticism. Laurent (2022), drawing on earlier assessments, argues that Vargas Llosa either overlooked key aspects of Hayek's work or failed to fully grasp them. Similarly, Salazar (2021) contends that Vargas Llosa cannot be considered a genuine liberal, insofar as he never entirely abandoned the ideal of equality of opportunity.

In the third section, Vargas Llosa revisits the central arguments of *The Road to Serfdom* (1944), identifying a common collectivist denominator in Nazism and communism: the rejection of private property and political liberty. However, he notes that Hayek underestimated certain distinctive features of Nazism, particularly its racial dimension (pp. 77-78). The work warned that economic planning progressively erodes freedom, addressing especially the «socialists of all parties».

Vargas Llosa also points to two notable omissions: the role of corruption as an institutional threat and the problematic equation of socialism with communism. He clarifies, moreover, that the Hayekian conception of the rule of law does not exclude all forms of planning, but rather presupposes a limited institutional framework. He further notes Hayek's critique of Ludwig von Mises's utilitarianism and extreme rationalism, which, in his view, reduced social problems to technical calculations presumed to be solvable at will, an approach he considered as misguided as socialism itself. Although Hayek agreed with Milton Friedman on many issues (with the notable exception of monetary policy), he criticized Friedman's methodological commitment to logical positivism, describing *Essays in Positive Economics* (1953) as «dangerous» (p. 83). Friedman,

for his part, admired Hayek but famously described *Prices and Production* (1931) as «unreadable». These disagreements illustrate that liberalism is not a monolithic doctrine, but rather an intellectual tradition shaped by internal debates and methodological divergences.

In *The Road to Serfdom* (1944), Hayek warns that even well-intentioned government policies—such as the pursuit of equality of opportunity or employment security—may, through unintended consequences, undermine the foundations of a free society. For Vargas Llosa, state interventionism generates a self-expanding dynamic that leads to increasing control over production, prices, and labor, thereby eroding economic liberty and paving the way for authoritarian outcomes, as exemplified by Germany prior to Hitler's rise to power (pp. 83-84). However, he observes that Hayek did not anticipate contemporary phenomena such as terrorism, whose impact on public perceptions of security has strengthened demands for greater state intervention, including in the economic sphere (p. 84).

Vargas Llosa highlights chapter eleven of *The Road to Serfdom* (1944), in which Hayek distinguishes between traditional dictatorships and totalitarian regimes, which seek to impose «absolute truths» through propaganda and censorship (p. 84). Such regimes as Marxist, fascist, or jihadist, transform ideology into a pervasive «cultural atmosphere» that penetrates all domains of knowledge, from science to the arts, suppressing dissent (pp. 84-85). In these contexts, knowledge is reduced to an act of faith, and truth becomes subordinated to political objectives (p. 85).

In the fourth section, Vargas Llosa considers *The Constitution of Liberty* (1960) and *Law, Legislation and Liberty* (1973-1979) to be Hayek's most important works, despite their dense and occasionally opaque style, partly attributable to his intellectual formation in the German tradition. He examines how the welfare state, under the premise of guaranteeing social rights, has progressively displaced individual responsibility in areas such as health, education, and housing, thereby discouraging innovation and economic growth (pp. 85-86). In chapter XXI, he endorses Hayek's critique of inflationary policies justified in the name of full employment, noting that such policies are often promoted by actors seeking greater state control over the economy (p. 87).

According to Vargas Llosa, Hayek defends inequality as a natural outcome of liberty, if it arises from merit rather than privilege. Equality, in this view, should be confined to the legal sphere, allowing differences in talent and effort to translate into unequal outcomes that, in turn, foster social progress (p. 87). Nevertheless, in chapter XXIV, Hayek adopts a more nuanced position on public education, recognizing the importance of equal opportunity while rejecting homogenizing approaches that negate individual merit (p. 88). A similar logic applies to state-funded scientific research, where academic freedom must prevail, albeit within limits: «Tolerance must not include the right to preach intolerance» (pp. 88-89).

Vargas Llosa concludes this section with *Why I Am Not a Conservative* (1957), in which Hayek delineates the differences between liberalism and conservatism. Conservatives, he argues, tend to resist change and rely on authority, at times approaching authoritarian positions. By contrast, liberals value individual freedom and intellectual diversity, whereas conservatives are more prone to nationalism and dogmatism, often perceiving external influences as threats (p. 89).

More broadly, Vargas Llosa insists that liberalism should not be understood as merely another ideology. Drawing on Hayek, he characterizes it as a doctrine that does not claim to provide definitive answers to all social problems but rather allows for disagreement and critical debate within a framework of fundamental principles. Among these, liberty occupies a central place as the supreme value, structuring the economic, political, social, and cultural dimensions of a genuinely democratic society (Zuvekas & Elliott, 2019).

Finally, Vargas Llosa portrays liberals, following Hayek, as rational skeptics who are open to dialogue and willing to revise their beliefs, in contrast to the rigidity often associated with conservatism. While many liberals adopt agnostic positions, they do not necessarily reject religion; rather, they advocate its separation from the political sphere to prevent historical conflicts. Despite terminological ambiguities—particularly in the United States—Hayek defends the term «liberal» as the most appropriate designation for his intellectual project. (pp. 90-91).

Although Vargas Llosa does not devote a separate section to Ludwig von Mises, he constructs a complex and nuanced portrait of him, in which recognition, historical contextualization, and internal criticism converge. The first reference positions him as a founding figure of the 20th-century liberal renaissance, noting that, alongside Friedrich Hayek, he championed the revival of classical liberalism in Austria in the face of the rise of Keynesianism. In this context, Mises appears as part of an intellectual reaction against state interventionism inspired by John Maynard Keynes, positioning him as a key figure in the defense of *laissez-faire* (p. 69).

Vargas Llosa then expands this characterization by including Mises within a group of thinkers who cannot be reduced to a single discipline. By stating that, like von Mises, Popper and Berlin, Hayek transcends economics, the author projects the same quality onto Mises: that of being a total intellectual, whose work encompasses philosophical, political, and social dimensions. This reference not only raises Mises's profile but also places him within a broad, multidisciplinary tradition of liberal thought, distancing him from a strictly technical or economic perspective.

However, this assessment is qualified when Vargas Llosa introduces a hierarchical comparison between Mises and Hayek. By arguing that no one, not even von Mises, has outlined the benefits of the market better than Hayek, he implicitly acknowledges Mises's importance, yet simultaneously establishes Hayek's analytical superiority. This statement reveals a discursive strategy in which Mises functions as a necessary precursor, but not as the culmination of liberal thought—a role the author reserves for Hayek (p. 82).

The text also situates Mises within the institutional framework of 20th-century liberalism by mentioning him as one of the founders of the Mont Pelerin Society. Alongside figures such as Karl Popper and Milton Friedman, Mises appears as part of an intellectual elite committed to the defense and renewal of classical liberalism. This reference reinforces his historical relevance, showing that he was not only a theorist but also an active participant in the construction of networks of intellectual and political influence.

A particularly significant aspect of the treatment of Mises is his relationship with Hayek in terms of their formative years. Vargas

Llosa cites Hayek's own testimony, in which he states that Mises was «probably the person from whom I learned the most». This acknowledgment positions Mises as a teacher and intellectual guide, underscoring his role in shaping one of the leading exponents of contemporary liberalism. The description of the famous Vienna Privatseminar deepens this image, portraying Mises as a hub of intellectual sociability, where not only economic but also philosophical and epistemological topics were discussed. Thus, the author constructs the figure of Mises as a shaper of generations, whose influence transcended the formal classroom.

However, Vargas Llosa does not limit himself to a laudatory portrayal. He also introduces the theoretical tensions between Mises and Hayek, particularly stemming from the 1937 article in which the latter questions some of Mises's ideas. The most explicit criticism appears when it is noted that Hayek considered Mises a «utilitarian» and a strict rationalist, convinced that institutions could be deliberately organized. This characterization is crucial, as it allows the author to demonstrate that liberalism is not a homogeneous body of doctrine, but a field of internal debate. Here, Mises embodies a more rationalist and constructivist version of liberalism, as opposed to the Hayekian stance that emphasizes spontaneous orders and the limits of human knowledge (p. 83).

Finally, Vargas Llosa reaffirms Mises's centrality by including him, alongside Hayek and Friedman, among the great liberal economists of the 20th century. However, even in this recognition, he insists on highlighting the differences between them, emphasizing that liberalism allows for a plurality of approaches and significant disagreements. In this way, Mises is established as a canonical figure, though not an unquestionable one, whose work constitutes a starting point rather than a destination.

In short, the treatment of Mises in this excerpt reveals a precise intellectual operation: Vargas Llosa recognizes him as a fundamental pillar of modern liberalism, as Hayek's mentor, and as a key figure in the reconstruction of this doctrine, but at the same time places him in an intermediate position within its evolution. Mises is, in this narrative, the indispensable origin of a tradition that reaches a more sophisticated and complete development in Hayek.

As this section has shown, Vargas Llosa's intellectual evolution toward liberalism in the 1970s and 1980s was decisively shaped by his engagement with Hayek and others. These influences enabled him to identify the dangers of dogmatism, social constructivism, and authoritarian utopias, while also grounding his defense of the open society during his participation in Peruvian politics at the end of the twentieth century.

4. The story of politics triumphing over economics

The twentieth century in Peru was characterized by the subordination of economic rationality to ideological projects, a phenomenon that reached its peak during the first APRA¹ administration, whose failure exposed the structural limits of statism. In the early decades of the second half of the century, despite the efforts of Pedro Beltrán Espantoso (1897-1979) as Prime Minister and Minister of Finance, the state maintained a high degree of economic intervention under a developmentalist model that prioritized political objectives over fiscal sustainability.

As Contreras (2021), points out, the period from 1962 to 1992 constituted the «glorious thirty years» of developmentalism, marked by governments such as those of Velasco (1968-1975) and García (1985-1990), which promoted far-reaching statist transformations, alongside more moderate administrations such as those of Belaúnde and Morales Bermúdez that nonetheless preserved the same general orientation (p. 393). According to Morales (1993), although ambitious in its transformative aims, this model began to show signs of exhaustion by the late 1970s due to accumulated inefficiencies, macroeconomic imbalances, and external pressures (p. 11).

By the 1980s, the collapse of developmentalism triggered a multidimensional crisis. As Figueroa (1991) notes, welfare indicators deteriorated sharply. Per capita income in 1990 was lower than in

¹ The American Popular Revolutionary Alliance (APRA), founded by Víctor Raúl Haya de la Torre, was one of the most influential political movements in twentieth-century Peru.

1980, while urban unemployment and food insecurity increased significantly. Gonzales de Olarte (1991) identifies this economic crisis as a breeding ground for political violence, compounded by institutional weaknesses that generated a climate of chronic uncertainty and adversely affected the behavior of economic agents.

The Central Reserve Bank of Peru (2015) characterizes this collapse as a «perfect storm», in which external shocks, political fragility, and limited entrepreneurial capacity converged, producing a contraction comparable to that experienced by countries undergoing civil war. Boloña (1993) encapsulates this dynamic as «the triumph of politics over economics», referring to the primacy of ideological decision making over technical and economic criteria, which ultimately led to uncontrolled state expansion.

Morales (1993) documents how external debt increased by 1,317 percent between 1968 and 1985, rising from 738 million dollars to 10.462 billion dollars in three phases. It initially doubled between 1968 and 1973, then quadrupled between 1974 and 1980, and finally increased by an additional 4.419 billion dollars between 1981 and 1985, largely through commercial creditors. Payment arrears surged from 20 million dollars in 1983 to 2.581 billion dollars in 1985, reflecting a severe liquidity crisis. Monetary conditions further exacerbated the situation. After a period of relative stability, with an average of 7 percent annual inflation between 1950 and 1972, inflation rose to 17 percent between 1968 and 1977 and ultimately reached a hyperinflationary peak of 7,650 percent in 1990 (Boloña, 1993).

At the same time, as demonstrated by an experiment reported by Vargas Llosa (1986), state bureaucracy imposed prohibitive costs on formalization. Registering a small workshop required 289 days and 1,231 dollars, equivalent to 32 minimum wages, thereby encouraging widespread informality (p. XIX).

García's 1987 announcement to nationalize the banking system and suspend foreign debt payments catalyzed widespread social opposition and marked the beginning of Vargas Llosa's political engagement (Sabino, 2015). This context of economic, institutional, and moral crisis created the conditions for liberalism, previously a marginal current, to emerge as a viable alternative in response to the collapse of the statist model and the delegitimization of traditional

political parties. It was in this context that Mario Vargas Llosa launched a political experiment that, although short lived, encapsulated many of the aspirations and contradictions of a new enlightened elite seeking to revive the country based on free market principles and liberal democracy.

5. The birth of great ingenuity

Mario Vargas Llosa's rejection of the 1987 bank nationalization marked his formal entry into Peruvian politics, crystallizing a liberal project that linked democracy with the market economy and warned of the risks of statism. At this decisive moment, like a modern Julius Caesar, he crossed his Rubicon by leaving behind the intellectual sphere to assume the risks of political action, directing his commitment toward the public defense of economic freedom.

Although initially marginal, this position gained relevance in the context of economic crisis and institutional discredit that exposed the limits of interventionism. In an article published in August 1987, Vargas Llosa argued that nationalizations generate inefficiency and immorality by subordinating firms to political power. He recalled the experience of the Velasco government, in which the expansion of the state apparatus from 10 to 170 enterprises neither reduced poverty nor corruption, but instead exacerbated both (Vargas Llosa, 1987).

For Kenney (2004), between 1987 and 1989 the fragility of the party system became evident when Vargas Llosa broke with Acción Popular² and founded the Movimiento Libertad as an alternative to traditional political organizations (p. 140). Sabino (2015) describes the founding moment on August 21, 1987, when a large crowd gathered in Plaza San Martín to support the defense of economic liberty as a condition for development. In that speech, Vargas Llosa emphasized that overcoming poverty required the creation of wealth rather than its redistribution (pp. 104-105).

² Popular Action, founded by Fernando Belaúnde Terry, promoted a developmentalist approach based on a mixed economy and decentralization.

However, Requena (2010) characterized the movement as «highly naive», pointing to internal contradictions arising from its alliances with traditional parties and mercantilist sectors, which limited its ideological coherence. In a similar vein, Godoy (2010) observed that one of its main conceptual errors was to assume that all supporters shared a liberal worldview, thereby overlooking the emotional and symbolic dimensions of political mobilization.

The formation of the Frente Democrático (FREDEMO) in 1988, in alliance with Acción Popular and the Partido Popular Cristiano³, reflected the broader crisis of the party system. Although this coalition expanded its electoral base, it also revealed the extent of public disenchantment with established political structures (Kenney, 2004, p. 142).

It is important to note that, although the Movimiento Libertad, composed largely of independents and liberal intellectuals (Gheri, 2021) represented the first organized effort to introduce classical liberalism into active Peruvian politics, earlier precedents existed. Pedro Beltrán Espantoso had already played a pioneering role in disseminating these ideas through the newspaper *La Prensa* in the 1950s, establishing intellectual connections with figures such as Ludwig von Mises, Friedrich Hayek, and Milton Friedman (Fuentes, 2019, pág. 261). After his death, a group later referred to as the «Young Turks» continued this work through journalism. This group included Federico Salazar, Enrique Gheri, Mario Ghibellini, Iván Alonso, Franco Giuffra, Carlos Espá, Jaime Bayly, Juan Carlos Tafur, and Pablo Cateriano, among others, and was named by Enrique Chirinos Soto in recognition of the strength of their convictions (Requena, 2010; Ghibellini, 2004). Despite their intellectual influence, they lacked an organizational structure.

At the same time, as Adrianzén (2014), notes, Hernando de Soto contributed to the institutionalization of liberal thought through the creation of the Instituto Libertad y Democracia (Institute for Liberty and Democracy) in 1979, supported by the Atlas Foundation network. Through seminars and academic exchanges involving figures such as Hayek and Friedman, this initiative connected

³ The Popular Christian Party (PPC), inspired by Christian democracy, has traditionally supported a social market economy and democratic institutions.

the Peruvian debate with international liberal networks, including the Mont Pelerin Society, and helped consolidate a local school of liberal thought.

Vargas Llosa's 1990 government plan proposed a comprehensive liberal transformation, including privatization programs with popular shareholding schemes, labor market flexibility, education reforms based on selective scholarships, agricultural liberalization, and a civil strategy to combat terrorism (Escárzaga, 2022). Although he was defeated by Alberto Fujimori, his candidacy articulated, for the first time, a coherent and programmatic liberal alternative. Paradoxically, as Torres (2010), observes, many of the reforms he proposed were later implemented during the 1990s, suggesting that his ideas resonated with a society that was both exhausted by crisis and eager for stability and economic progress.

Thus, the initial perception of «great naivety» associated with the Movimiento Libertad gradually gave way to a more pragmatic acceptance of liberal policies. Although implemented under different political leadership, these reforms ultimately contributed to the consolidation of a new economic consensus in Peru, grounded in macroeconomic stability, the market economy, and the restoration of individual liberties.

6. The difficult task of learning to be an agitator

«Every liberal must be an agitator». This statement, made by Friedrich A. Hayek in his later years, exerted a profound influence on Mario Vargas Llosa, who understood that fulfilling this imperative required not only embracing liberal principles, but also actively disseminating them.

In a political landscape marked by the discrediting of liberal ideas and the predominance of statist discourse, members of the Movimiento Libertad assumed an explicitly pedagogical role. Their objective was to revive and promote the core principles of liberalism among political leaders and citizens committed to democracy and the market economy. An emblematic expression of this effort was the publication of *25 lecturas sobre la libertad* (1989), a compilation of texts selected by Enrique Ghera Silva, then president of the

Ideology Commission of the movement, and published under the Pro-Desarrollo imprint (Movimiento Libertad, 1989).

This initiative formed part of a broader intellectual strategy aimed at recovering and disseminating liberal thought in a context dominated by interventionist ideas. The selection of texts was not arbitrary, but reflected a deliberate attempt to introduce, during crisis, the foundations of a diverse yet coherent liberal tradition. Each contribution was chosen not only for its theoretical rigor, but also for its relevance to the economic and political challenges facing Peru in the late 1980s.

Following Vargas Llosa's electoral defeat in 1990, one might have expected the decline of this intellectual project. However, rather than fading, these ideas became increasingly influential. As Enrique Ghersi (2021), argues, this phenomenon illustrates what he terms the «Reformer's Paradox», according to which electoral contests produce two distinct winners: one at the polls and another in the realm of ideas. In this sense, it is not always the candidate who secures the most votes who ultimately shapes the political agenda.

Through initiatives promoted by FREDemo parliamentarians in the years preceding the 1992 self-coup, these ideas were gradually translated into legislative debates, policy proposals, and, eventually, concrete reforms. Many of these principles were later incorporated into the 1993 Constitution, underscoring their lasting influence on Peru's political and economic trajectory.

7. Conclusions

Mario Vargas Llosa's intellectual and political trajectory toward liberalism during the 1970s and 1980s reflects a profound transformation shaped by his engagement with the works of Isaiah Berlin, Karl Popper, and, above all, Friedrich A. Hayek. Their theoretical contributions provided him with conceptual tools to critically reassess the dogmatism, historicism, and collectivist utopias that had previously informed his worldview. This evolution unfolded within a broader Latin American context marked by the exhaustion of developmentalism, the crisis of the statist model, and the

progressive erosion of traditional party systems, all of which generated a growing demand for economic and institutional reform.

Within this setting, Vargas Llosa's 1990 presidential candidacy represented the most comprehensive political expression of his liberal convictions. Although electorally unsuccessful, his campaign played a decisive role in introducing into public debate a coherent set of principles linking democracy, the rule of law, and the market economy. In doing so, it contributed to reshaping the ideological landscape of Peru at a critical historical juncture and anticipated key elements of the structural reforms implemented during the subsequent decade.

The Movimiento Libertad, composed of a network of intellectuals, professionals, and political actors, extended its influence beyond the electoral arena through a sustained effort of doctrinal formation and public pedagogy. A central component of this endeavor was the publication of *25 lecturas sobre la libertad* (1989), conceived as an instrument for the dissemination of classical liberal thought. The anthology, structured around authors associated with the Austrian School and related liberal traditions, not only systematized a coherent body of ideas but also contributed to redefining the terms of economic and political debate in Peru. In this sense, it functioned as a vehicle for the intellectual legitimization of market-oriented reforms that would later gain prominence.

More broadly, the experience of Vargas Llosa and the Movimiento Libertad should not be interpreted merely as an unsuccessful political episode, but rather as a formative moment in the reconfiguration of Peru's ideological and institutional trajectory. It constituted a bridge between the critique of statist paradigms and the subsequent, albeit partial and often contradictory, implementation of a new economic model grounded in individual liberty, macroeconomic stability, and institutional reform.

The Peruvian case thus illustrates a broader analytical insight: structural transformations are not driven exclusively by political power or electoral outcomes, but also by the capacity of ideas to shape expectations, redefine public discourse, and provide normative frameworks for action. In this regard, Vargas Llosa's liberal project exemplifies how intellectual interventions, even when politically defeated, can exert a lasting influence on the direction of economic policy and the evolution of democratic societies.

Appendix A

TABLE 1.
DETAILS OF THE BIBLIOGRAPHIC REFERENCES
FOR THE 25 READINGS

N.º	Título	Libro	Autor	Editorial	Edición	Lugar	Año	Cap.	Páginas
1	¿Por Qué No Soy Conservador?	Los Fundamentos de la Libertad	Friedrich A. Hayek	Universidad Francisco Marroquín	Cuarta Edición	Madrid	1982		513-529
2	El Mercado	La Acción Humana	Ludwig Von Mises	Unión Editorial S.A.	Cuarta Edición	Madrid	1986	XV	397-488
3	Condiciones del Marco Político...	Más Allá de la Oferta y la Demanda	Wilhelm Röpke	Unión Editorial S.A.	4ª Edición	Madrid	1979	3	179-196
4	¿Cómo Canalizar el Crecimiento del Estado?	Jornadas Hispano-Francesas sobre la Nueva Economía	Henri Lepage	Forum Universidad		Madrid	1980		
5	La Economía Keynesiana en la Política Democrática	Déficit del Sector Público y Democracia	Buchanan y Wagner	Ediciones Rialp S.A.		Madrid	1983	7-8	156-208
6	El Remedio a la Inflación	Libertad de Elegir	Milton y Rose Friedman	Grijalbo S.A.	Segunda Edición	Barcelona	1981		345-389
7	El Trabajo y los Sindicatos Obreros	Los Fundamentos de la Libertad	Friedrich A. Hayek	Universidad Francisco Marroquín	Cuarta Edición	Madrid	1982	XVIII	362-384
8	El Voto como un Medio de Control Colectivo	Los Motivos del Voto	Gordon Tullock	Espasa Calpe S.A.		Madrid	1979	III	23-39
9	Una Teoría Económica Generalizada de las Constituciones	El Cálculo del Consenso	Buchanan y Tullock	Espasa Calpe S.A.		Madrid	1980		
10	Lógica Básica de la Votación	Teoría Económica de la Democracia	Anthony Downs	Aguilar S.A.	Primera Edición	Madrid	1973	III	39-53
11	Motivación de los Partidos y Función del Gobierno	Teoría Económica de la Democracia	Anthony Downs	Aguilar S.A.	Primera Edición	Madrid	1973	II	23-37
12	De las Preferencias Privadas a la Filosofía Pública	(Revista) Inst. de Estudios Económicos	James Buchanan			Madrid	1980	(Vol.) N.º 2	199-219
13	Planteamiento	El Nacimiento del Mundo Occidental	North y Thomas	Siglo XXI		Madrid	1980		
14	Una Teoría del Cambio Institucional	Estructura y Cambio en la Historia Económica	Douglas C. North	Alianza Universidad		Madrid	1985		
15	Ética de la Competencia	La Moral del Mercado	H. B. Acton	Unión Editorial S.A.	Primera Edición	Madrid	1979		73-118
16	Los Nuevos Conservadores	El Hombre contra el Estado	Herbert Spencer	Librería Grancourt	Primera Edición	Buenos Aires	1980		7-25
17	Cosmos y Taxis / Nomos y Thesis	El Orden de la Libertad	Friedrich A. Hayek	Universidad Francisco Marroquín		Guatemala	1985		
18	Dos Conceptos de Libertad	Libertad y Necesidad en la Historia	Isaiah Berlin	Revista de Occidente		Madrid	1974		133-182
19	Libertad y Libertades	Los Fundamentos de la Libertad	Friedrich A. Hayek	Universidad Francisco Marroquín	Cuarta Edición	Guatemala	1982	Cap. I	31-45
20	¿Incrementan los Sindicatos los Salarios?	La Economía en una Lección	Henry Hazlitt	Unión Editorial S.A.		Madrid	1973		149-162
21	¿Tiene la Historia Algún Significado?	La Sociedad Abierta y sus Enemigos (Tomo II)	Karl Popper	Paidós		Buenos Aires	1967	XXV	368-401
22	El Poder Creador de la Civilización Libre	Los Fundamentos de la Libertad	Friedrich A. Hayek	Universidad Francisco Marroquín	Cuarta Edición	Madrid	1982	II	47-65
23	Libertades Formales y Libertades Reales	Ensayo sobre las Libertades	Raymond Aron	Editorial Ediciones del Cotal S.A.	Tercera Edición	Madrid	1974	II	71-141
24	Del Deber de la Desobediencia Civil		Henry David Thoreau		Tercera Edición	Barcelona	1983		345-371
25	La Cultura de la Libertad	Libertad - Primer Ciclo de Conferencias (Tomo I)	Mario Vargas Llosa	Pro-Desarrollo		Lima	1988		XXXIII-XLVII

Note: Created by the author, based on (Movimiento Libertad, 1989).

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Conflicts of interest

The author declares that he has no conflict of interests.

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FROM THE AUSTRIAN THEORY OF THE BUSINESS CYCLE TO THE MACROECONOMICS OF CAPITAL: A REVIEW OF THE CONTRIBUTION BY PROF. ALONSO NEIRA

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1. Introduction

This paper presents a review of the academic work of Dr Miguel Ángel Alonso Neira (a member of the Austrian School of Madrid, Matarán, 2024), in relation to the updating of the Austrian Business Cycle Theory (TACE) (Hayek, 1929 and 1931; Mises, 1949; Huerta de Soto, 1998) and the advancement of the Macroeconomics of Capital (Garrison, 2001; Hulsmann, 2001; Sánchez-Bayón et al., 2022, 2023 and 2025), with empirical evidence extending beyond the Anglo-Saxon world (Sánchez-Bayón, 2021, 2022a–b and 2025; Sánchez-Bayón and Castro-Oliva, 2022 and 2023). This type of review allows the findings of multiple studies (in this case, more than two dozen high-impact publications by Prof. Alonso Neira) to be combined in order to gain a comprehensive and comparative understanding of the progress made in the field of research, namely the economic theory of the Austrian School and its empirical illustration.

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Miguel Ángel Alonso Neira is a Senior Lecturer in the Department of Applied Economics I and Economic History and Institutions (and Moral Philosophy) at Rey Juan Carlos University (in Madrid, Spain). After graduating with a degree in Economics from the Complutense University of Madrid in 1993, he undertook postgraduate studies in the United Kingdom, where he obtained a Master's degree in Monetary Economics and International Finance from the University of Essex in 1999, on a scholarship from the "La Caixa" Foundation and the British Council. It was there that he was awarded the *Leatherland Book Prize* (for the best postgraduate student) and received the *Extraordinary Prize for his year group*. Under the supervision of Prof. Huerta de Soto, he was awarded a PhD in Economics from Rey Juan Carlos University in 2001, with the distinction of 'outstanding cum laude', and two years later received the 'Víctor Mendoza' National Prize from the Institute of Economic Studies for his work on capital controls and economic policy. He currently co-directs, alongside Prof. Huerta de Soto, the Master's Degree in Economics of the Austrian School at URJC (one of the oldest and most international specialised degree programmes)¹, as well as leading a research group on economic cycles and another group focused on teaching innovation².

Throughout his career, Alonso Neira has published numerous books and articles in academic journals recognised both nationally and internationally, notably titles such as *Economic Theory of Monetary and Financial Crises and Capital Controls* (2004) and *Expansions and Recessions in a Globalised World* (2017). His academic career spans more than twenty-five years, during which he has been a visiting professor at universities in various countries, including Italy, Germany, Austria, Mexico and Argentina. He has delivered lectures at institutions across Europe and the Americas, and has been invited as an expert to symposia organised by the *Liberty Fund* in the United States, Argentina and Colombia. His work lies

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at the intersection of monetary theory, the economics of capital and economic cycles, and he has successfully fostered a dialogue between *mainstream* economists and the Austrian School (Sánchez-Bayón et al., 2023 and 2024), as well as offering a proposal for the renewal of the latter in line with the Macroeconomics of Capital (as already initiated by Machlup and Garrison for the US, Machlup, 1962 and 1982; Garrison, 2001).

The theory of capital and TACE are distinctive contributions of the Austrian School, thereby enabling a focus on a key factor of production which has frequently been treated by other schools in a homogeneous and/or exogenous manner, as is the case with capital and its impact on productive processes and structure. Based on a dynamic conception of the production process, a multi-stage and intertemporal structure is proposed, which enables the construction of a coherent and empirically testable theory of the business cycle (as well as one that refutes *mainstream* postulates, Domenech et al., 2024). The work of Alonso Neira constitutes an important contribution in this regard.

2. Research design

2.1. Review method

There are various types of systematic reviews (e.g. the Cochrane method, PRISMA, Cueva et al, 2023 and 2024a-b; Sánchez-Bayón et al, 2024). Most follow a formalised approach to identifying, assessing and synthesising the available evidence in order to answer a specific research question. This methodology requires the development of an inclusion protocol to ensure the transparency and replicability of the study. The Cochrane method (Higgins et al., 2019) distinguishes the following stages when conducting a systematic review:

1. Definition of the research question
2. Drafting of the inclusion protocol
3. Search for studies
4. Selection of studies
5. Data extraction

6. Assessment of risk of bias
7. Data analysis
8. Interpretation of results and drawing of conclusions

As this study focuses on a single author and topic, we will adapt the protocol as follows:

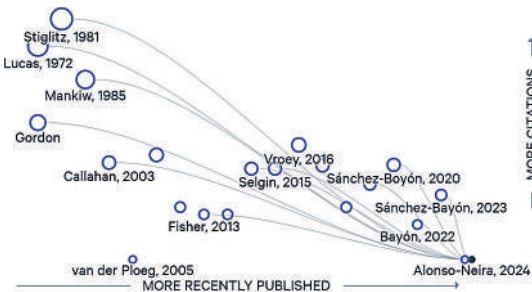
1. Define the research question
2. Establish inclusion criteria
3. Search for the author's works
4. Select those relevant to TACE

Subsequently, theoretical studies will be separated from empirical ones. The former will be summarised in a conceptual review, whilst the latter will be the subject of a systematic review.

2.2. Research question and inclusion protocol

Although many systematic reviews use the PICO method (*Problem, Intervention, Comparison, Outcome*), which is typical of the health sciences, in this case the following question is posed: *What has been Professor Miguel Ángel Alonso Neira's contribution to the understanding and dissemination of the Austrian Business Cycle Theory?*

FIGURE 1.
ALONSO NEIRA'S SUMMARY FOR THE DIALOGUE BETWEEN
SCHOOLS OF THOUGHT



Source: Litmaps, 2025.

His main areas of research include: monetary policy, economic and financial cycles, exchange rate crises, financial transaction taxes and national security. However, this review will focus exclusively on his work relating to the Austrian Business Cycle Theory (ABCT) and the macroeconomics of capital.

2.3. *Search for studies and selection for inclusion*

Following the COSI method (Bidwell & Jensen, 2004), we will distinguish between three levels of search:

- CORE: articles in indexed databases (WoS, Scopus), literature reviews and relevant reviews.
- STANDARD: direct contact with experts, manual search of key journals.
- IDEAL: direct access to the author’s complete body of work. In this case, we have received direct support from Professor Alonso Neira, who has provided us with works not available in traditional databases.

From Professor Alonso Neira’s entire body of work, the following publications have been selected (in chronological order, based on their thematic relevance and impact factor) for inclusion (see Table 1).

TABLE 1.
PUBLICATIONS BY RELEVANCE AND IMPACT

Alonso Neira, M.A. (2004). “A guide to the study of the macroeconomics of capital.” <i>Procesos de Mercado: Revista europea de economía política</i> , 1(1): 113–186
Alonso Neira, M.Á. (2005). “Monetary theories of the business cycle within the framework of the literature on economic cycles.” <i>Libertas</i> , 12(43): 1–28.
Alonso Neira, M.A., Bagus, P. & Rallo Julián, J.R. (2011). “Theories of the business cycle: main contributions and analysis in the light of the insights of the Austrian School of Economics.” <i>ICE, Revista De Economía</i> , 1(858): 71–87.
Alonso Neira, M.Á., Bagus, P. & Rallo Julián, J.R. (2011). “The subprime crisis in the light of the Austrian theory of the business cycle: credit expansion, decision-making errors and moral hazard.” <i>Journal of World Economics</i> , 28, 145–174.

Alonso Neira, M.Á., Bagus, P., & Rallo Julián, J.R. (2012). "The first global financial crisis of the 21st century: Origins and proposals for reform. An Austrian approach." *Interdisciplinary Journal of Economics and Business Law*, 2(1), 51–80

Alonso Neira, M.Á. (2013). "The Austrian theory of the business cycle in mainstream academic literature." *Procesos de Mercado: Revista europea de economía política*, 10(2): 463–464

Alonso Neira, M.Á., Bagus, P. & Romero Ania, A. (2013). "An empirical illustration of the Austrian theory of the business cycle: the case of the United States, 1988–2010." *Investigación Económica*, 72(285), 41–74.

Alonso Neira, M. Á. (2021). "A guide to the study of the macroeconomics of capital: Are there reasons to believe that recessionary cycles are the result of political and business errors?" *Procesos de Mercado: Revista europea de economía política*, 18(1)

Alonso Neira, M. Á., Sánchez-Bayón, A., & Castro-Oliva, M. (2023). "Austrian Theory of the Business Cycle Applied to the Spanish Case: From the Introduction of the Euro to the Great Recession and Recovery." *Journal of Quantitative Methods for Economics and Business*, 35, 280–310.

Alonso Neira, M.A., Sánchez-Bayón, A. & Castro-Oliva, M. (2023). "An Heterodox History of the Spanish Economy in the Eurozone: An Austrian School of Economics Analysis of Boom and Bust." *Forum Scientiae Oeconomia*, 11(2), 9–41

Alonso Neira, M.Á. & Sánchez-Bayón, A. (2023). "The yield curve as a leading indicator of recession: Austrian economics insights." *Panoeconomicus*, 72(4): 501–524. <https://doi.org/10.2298/PAN230217018A>

Alonso Neira, M.Á. & Sánchez-Bayón, A. (2024). "The Spanish boom-bust cycle within the euro area: Credit expansion, misallocations of capital and recession (2002–2014)." *Politická ekonomie*, 72(4), 597–625. DOI: 10.18267/j.polek.1429

Espinosa, V.I., Alonso-Neira, M.A., & Huerta de Soto, J. (2023). "The central banking system paradox." *Economics and Sociology*, 16(4), 56–72. doi:10.14254/2071-789X.2023/16-4/3

Espinosa, V. I., Alonso-Neira, M. A., & Huerta de Soto, J. (2023). "The Ethics of the Fractional-Reserve Banking System: A Private Property Rights Approach." *Economics*, 11(9), 221. <https://doi.org/10.3390/economics11090221>

Martínez Fernández, I., Alonso Neira, M. Á., & Palma Martos, L. (2023). "Disaggregated savings: Some implications for a capital-based macroeconomic framework." *Cuadernos de Economía*, 42(88), 43–60

Source: own work.

3. Results and discussion

3.1. *Theoretical articles*

The following articles are reviewed below (drawn from the table above and organised according to their internal logic in the development of theoretical frameworks), based on their contribution to the aforementioned updated synthesis of TACE and the advancement of the Macroeconomics of Capital, as well as to foster dialogue between schools of thought (promoting a better understanding of Austrian theory).

‘A guide to the study of the macroeconomics of capital’ (Alonso Neira, 2004): This article begins by highlighting two opposing approaches that have historically been followed in the study of macroeconomics: the macroeconomics of perversity and the macroeconomics of perfection. As the professor states, the former is linked to Keynesian theory and rejects the possibility that the allocation of resources can occur efficiently through the market economy, urging the relevant government authority to intervene in the economy. On the other hand, the latter encompasses theories that recognise the ability of markets to allocate resources efficiently, alongside the rational expectations of individuals.

According to the academic consensus, it therefore seeks to reconcile the two approaches: the short-term rigidities caused by involuntary unemployment in the short run with long-term flexibility and full employment, and the joint movement of investment and consumption in the Keynesian short run. However, Professor Alonso Neira draws on a well-known quotation from *Human Action* (Mises, 1949) to highlight the artificial nature of the division between the long term and the short term. The macroeconomics of capital is presented as the tool that provides us with an analytical framework which justifies the efficiency of markets whilst also detailing the contingencies that could cause them to fail.

Sections III and IV set out the fundamentals of the macroeconomics of capital, drawing on Roger Garrison’s (2001) graphical approach. Firstly, economic production is conceived as a dynamic process that arises from spontaneous order and is represented by the Hayekian triangle. Emphasis is placed on the intertemporal

nature of capital and how investment affects future output. Secondly, the role of the loanable funds market and the interest rate is highlighted. In this market, suppliers and demanders of funds with different time preferences interact; this relationship is expressed by the interest rate, which may potentially be distorted as a result of central bank intervention. Thirdly, a clear distinction is therefore drawn between sustainable and unsustainable growth, based on the criterion of an increase in the real savings of economic agents. Finally, the professor illustrates the consequences of artificially low interest rates, namely an unsustainable economic structure that inexorably leads to forced saving and an extremely harsh process of liquidation and adjustment.

In Section V, the professor elaborates on the distinction between sustainable and unsustainable growth, once again emphasising the role of interest rates. If interest rates are free from state manipulation, they reflect economic agents' time preference between present and future consumption, thereby enabling an appropriate allocation of resources. Conversely, manipulation of interest rates leads to a lack of coordination in business decisions, distorting economic agents' perception of risk. In Section VI, he provides an extensive review of business cycle theory.

Finally, in Section VII, Professor Neira prescribes a series of measures that should be adopted in line with the fundamentals of the macroeconomics of capital. The starting point is the prevention of recessionary cycles by avoiding monetary manipulation. Subsequently, in the event of an inevitable recession, the professor advocates mitigation based on natural market adjustment. Alonso Neira highlights the importance of avoiding expansionary policies during a recession and of establishing a sound institutional framework. The professor then lists a series of specific recommendations for economic policy, primarily fiscal stability, public debt reduction, and economic and financial education. Finally, he asserts that the role of the state must be to facilitate, not to direct. Government interference in prices, wages or interest rates only exacerbates intertemporal misalignments and prolongs crises; according to the professor, the priority must be a flexible market that allows for rapid adjustments. In Chapter VIII, the entire theoretical framework is illustrated with a series

of examples, specifically the recessions in Japan, the United States of America and Germany.

'Theories of the Business Cycle: Main Contributions and Analysis in the Light of the Contributions of the EA' (Alonso Neira et al, 2011): This paper conducts an in-depth review of business cycle theories, beginning with their conceptualisation and classification into exogenous and endogenous business cycle theories.

The authors begin their historical review with John Maynard Keynes's most famous work, *The General Theory of Employment, Interest and Money* (Keynes, 1936). The Keynesian system emerged as a counterpoint to *Say's law*. According to the authors, Keynes viewed cycles as the result of variations in investment expenditure caused by fluctuations in marginal efficiency. The waves of euphoria and depression brought about by Keynes's 'animal spirits' (1936) give rise to self-fulfilling prophecies. When optimism becomes widespread, the expected marginal efficiency of capital increases. However, as this increases, bottlenecks arise; consequently, optimism is succeeded by a wave of pessimism that drives up unemployment and undermines consumption. The authors then describe the expansion of Keynesian-inspired mathematical models from the 1930s onwards. Notable among these are Harrod (1936), Samuelson (1939) and Hicks (1950). These models were characterised by a clear bias in favour of state intervention in response to market failure.

The text then covers the discovery of the Phillips curve. In 1958, W. Phillips observed an inverse relationship between the unemployment rate and the rate of wage growth in the British economy. As the authors point out, the discovery of the inverse relationship between price inflation and unemployment served as a justification for the use of aggregate demand policies. Reactions from academics were not long in coming. The article divides these into those led by Phelps (1967) and Friedman (1968), proponents of a Phillips curve augmented by expectations, and those led by Lucas (1972) and Sargent-Wallace (1975). The latter camp would advocate an alternative expectations model. The rational expectations mechanism

The authors then introduce rational expectations models. Business cycle models developed up to the early 1970s were based on the assumption that economic agents made their decisions according to overly simplistic expectation-formation mechanisms. These

considerations led to the development of the rational expectations approach, according to which agents use all available information—including relevant economic theory—to form their forecasts. It is assumed that they process information appropriately and that their predictions coincide with those of standard economic models. However, from that point onwards, business cycle theory split into real business cycle models and monetary business cycle models with rational expectations.

The authors then set out the Austrian approach to the endogenous monetary cycle. As the authors explain, ‘the Austrian approach explains that recurring cycles of boom and recession are the result of credit expansion processes carried out by a fractional-reserve banking system. Credit expansion without prior backing from real savings leads to artificially low interest rates, which cause a misalignment between the intertemporal decisions of producers and consumers, resulting in excessive investment in long-term projects that the market will be unable to absorb. Consequently, the productive structure suffers significant distortions that do not correspond to the availability of resources or to consumer preferences, and must ultimately readjust to them”.

Finally, one of the article’s most significant contributions lies in its critique of the Keynesian (and Friedmanian) theory of the business cycle, set out in the epilogue. Keynes regards the interest rate as a purely monetary phenomenon. As he sets out in his *General Theory*, the interest rate is conceived as the price of liquidity (with particular attention to speculative demand for money in anticipation of higher bond prices). However, the authors insist that the interest rate is, ultimately, an indicator of economic agents’ time preference. In an economy with real savings, a low interest rate would indicate a reduced time preference on the part of its participants. The problem arises when rates fall as a result of monetary easing. Investment in capital goods expands as if real savings had increased, when this need not necessarily have happened. All of this will lead to a distressing period of liquidation and adjustment of bad investments.

“The Austrian Theory of the Business Cycle in Mainstream Academic Literature” (Alonso Neira, 2013): this is a brief update on the academic research carried out by Professor Alonso Neira. In this update, he notes that the Austrian Theory of the Business Cycle

(TACE) has attracted considerable interest in the wake of the 2008 financial crisis. In this compilation, the professor lists a series of works by *mainstream* economists that align with the fundamentals of the Austrian Business Cycle Theory. Among others, he mentions Caballero (2010), Leijonhufvud (2009) and Ohanian (2010).

In between, there are other publications by Prof. Alonso Neira on TACE, but it is not until the following one that a greater maturity of approach becomes evident.

“The Ethics of the Fractional-Reserve Banking System: A Private Property Rights Approach” (Espinosa et al, 2023): As stated at the beginning of the article, the Fractional-Reserve Banking System (FRBS) is “one of the main phenomena in banking history and predominates worldwide”. Despite the approval it receives from the academic consensus, the FRBS raises numerous questions. The stated aim of the article is to explore the main economic, legal and ethical factors behind the FRBS from the perspective of private property rights.

This is followed by an extensive review of recent literature on the fractional reserve banking system and its economic sustainability. We are made aware of the intellectual clash between traditional approaches and the Austrian School. Whilst the former extol the virtues of credit expansion facilitated by the FRBS and regulated by central banks, the Austrian School criticises the practice, highlighting the misalignment of incentives it entails amongst economic agents.

The authors then present an ethical framework based on private property rights and the principle of non-aggression. They argue that, as a consequence of the creation of money *ex nihilo* and the phenomenon of double availability, the FRS violates private property rights by enabling multiple parties to hold rights over the same funds. Economic sustainability is closely linked to the protection of private property, as it fosters capital accumulation and sustainable growth based on real savings.

Subsequently, the economic, legal and ethical factors underlying the SBRF are examined. These can be summarised as follows. Economically, it gives rise to boom-and-bust cycles by artificially expanding the money supply (as illustrated by the Austrian Theory of the Business Cycle). Legally, it infringes on depositors’ rights by failing to honour their expectations and effectively turning them

into borrowers. Ethically, it argues that the FRBS perpetuates a coercive structure by relying on central bank backing to prevent collapses. Furthermore, in the fifth section, the professor outlines a series of dilemmas related to the SBRF, namely: the full availability of deposits, maturity mismatches and hybrid contracts.

Finally, the authors conclude by summarising the legal, economic and ethical arguments against the SBRF and the need to “rethink the practical implications of the banking system from the perspective of the ethics of private property”. They emphasise that the application of a 100 per cent reserve ratio entails a shift in mindset in favour of private property, which would subsequently legitimise policy reforms aimed at ending *fiat* inflation, amongst other consequences (although this is not actually the case, Sánchez-Bayón et al, 2023 and 2024).

This is a robust critique of the fractional reserve banking system, emphasising the breach of contract which, as already noted, turns depositors into borrowers by exploiting the monetary nature of the deposited funds. Furthermore, this mechanism encourages artificial credit expansion, which, as the TACE illustrates, fuels the manic-depressive behaviour of the economy.

‘Disaggregated savings: Some implications for a capital-based macro framework’: The article begins by presenting the heated debate between the homogeneity and heterogeneity of savings, which is closely linked to the debate on the nature of capital. Following these considerations, two opposing views are presented. The first defines capital as homogeneous and self-reproducing, whilst the second defines it as a structure or pattern of combinations of heterogeneous and consumable goods.

The article builds on the work of Bagus and Howden (2010) regarding the implementation of a framework for disaggregated monetary savings in line with the position of the Austrian School of Economics. As the authors state, the main ideas behind the constraints on growth were established by Hayek, who highlighted the complexity of capital goods arising from the complementary nature of the relationship between the supply of saved capital goods and the demand for investment in capital goods. The article makes two contributions to the existing literature. Firstly, it defines and incorporates the sub-level of real savings based on the

availability of unconsumed income. Secondly, it contributes to the study of the TACE through capital-based macroeconomics, following the approach of Roger Garrison (2001).

The first section, 'Savings and its embodiments', addresses the concept of heterogeneity in savings. According to the authors, different forms of savings have varying impacts on the economy. Their position is that capital-based macroeconomics must incorporate this heterogeneous approach when modelling the intertemporal dynamics of production and consumption, distinguishing between real and artificial savings. Subsequently, the second section, 'The differential market signals of savings', explores in greater depth the different market signals generated by the various forms of savings. The role of the interest rate as an indicator of economic agents' time preference is once again highlighted, a role that is distorted in scenarios of monetary laxity. Finally, 'Reassessing Garrison's analysis' proposes a re-evaluation of the graphical tools used by the American author to better incorporate the complexity arising from the heterogeneity of capital.

In short, the categorisation of the different types of savings strengthens the argument that the interest rate is distorted as an indicator of economic agents' time preferences. The Wicksellian natural rate is lost amidst the vast mass of artificial savings generated by the credit expansion characteristic of loose monetary policies.

3.2. *Empirical articles*

This section covers the articles in which Professor Alonso Neira, together with other authors, empirically illustrates the TACE and the Theory of Capital, thereby facilitating a better understanding of the theoretical frameworks, as well as providing evidence that connects these theories to reality, which in turn aids dialogue with other more empirical and mathematically oriented schools of thought (without ever falling into their reductionist and instrumental trap, Sánchez-Bayón et al., 2023 and 2024). The articles are systematised below according to their time period, countries analysed, empirical method, variables, theoretical model, conclusions and main critical approach. The systematisation is as follows:

<i>Title</i>	<i>Time Period</i>	<i>Countries Analysed</i>	<i>Empirical Method</i>	<i>Variables</i>	<i>Theoretical Model</i>	<i>Conclusions</i>	<i>Main Critical Approach</i>
"The Central Banking System Paradox"	Q1 1975 – Q4 2022	United States of America	Granger causality test VAR Model Hysteresis Response Function (HRF)	True Money Supply (TMS), annual real GDP growth as a proxy for the US economic cycle	Austrian Business Cycle Theory (ABCT)	The article uses data from the United States of America between 1975 and 2022 and analyses how changes in the TMS are directly related to changes in real GDP. The results demonstrate that the TMS plays a significant role in explaining the different phases of the business cycle	The stability-efficiency paradox of central banks
"The subprime crisis in the light of the Austrian Business Cycle Theory"	2000–2008	United States of America	Conceptual review and descriptive analysis	Credit expansion, asset prices, interest rates	Garrison's model (production possibility frontier, loanable funds market and Hayekian triangle) Austrian Theory of the Business Cycle	As the authors point out, the Austrian approach maintains that the origin of the subprime crisis does not lie in the bursting of the property bubble, but rather in the capital structure brought about by the artificial credit expansion resulting from loose monetary policies.	Intertemporal misalignment and moral hazard in loose monetary policies
"The Spanish Boom-Bust Cycle Within the Euro Area: Credit Expansion, Malinvestments and Recession"	2002–2014	Spain	Granger causality test Information criteria: AIC, HC, SIC, LR test and final prediction error Models with Almon's distributed lags	Degree of monetary policy accommodation by the ECB Effect of monetary policy on the term structure of interest rates A proxy for the Spanish production structure Aggregate economic activity in Spain	Capital-based macroeconomics Austrian Theory of the Business Cycle	Granger causality tests show that the cyclical behaviour of the M3 monetary aggregate gives rise to changes in the slope of the Spanish yield curve Furthermore, as the authors point out, using Almon's models, endogenous inflection points were identified in the effect of the yield curve slope on the cyclical behaviour of the Spanish productive structure and aggregate industrial activity, thus revealing that the economic cycle of the Spanish economy from 2002 to 2014 follows the monetary cycle pattern proposed by the Austrian school	Impact of the ECB's expansionary monetary policy on the Spanish economy

<i>Title</i>	<i>Time Period</i>	<i>Countries Analysed</i>	<i>Empirical Method</i>	<i>Variables</i>	<i>Theoretical Model</i>	<i>Conclusions</i>	<i>Main Critical Approach</i>
"An empirical illustration of the Austrian theory of the business cycle: the case of the United States, 1988–2010"	Q1 1988–Q1 2010 (quarterly data)	United States of America	Granger causality test Almon's distributed polynomial lag model	Money supply (MZM) and the slope of the yield curve IPI and ratios of sectoral industrial production indices Industrial Production Index gap (IPI/HP trend)	Austrian Theory of the Business Cycle Cantillon effect	As the authors point out, the structure of the production process and the behaviour of aggregate output, as represented by the industrial production index, are subject to the influence of monetary laxity Furthermore, 'it should be emphasised that the differential positive effect on the early stages of the production process resulting from an artificial increase in the slope of the yield curve, tends to be dampened towards the end of the expansionary cycle, even reversing at the onset of the recession. This result would illustrate the existence of self-perpetuating expansion-recession cycles in line with the predictions of the Austrian school's view of the business cycle.'	The impact of expansionary monetary policies on the structure of production and the behaviour of aggregate demand
"Yield curve as a leading indicator of recession: Austrian economics insights"	1990 – Q1 2020	United States of America	First-order autoregressive model (VAR(1)) Granger causality test	TMS growth Ten-year three-month yield spread (SPREAD) Net percentage of domestic banks tightening standards for commercial and industrial loans (BANKS)	Austrian Business Cycle Theory Yield curve	Alonso and Sánchez-Bayón contrast the authorities' control over short-term interest rates with their inability to influence long-term interest rates, which (in line with Wicksellian theory) do reflect the time preferences of economic agents. According to the authors, this is why the slope of the yield curve anticipates the direction and intensity of monetary policy	The yield curve can anticipate the different phases of the business cycle as conceived in the Austrian Theory of the Business Cycle

4. Conclusion

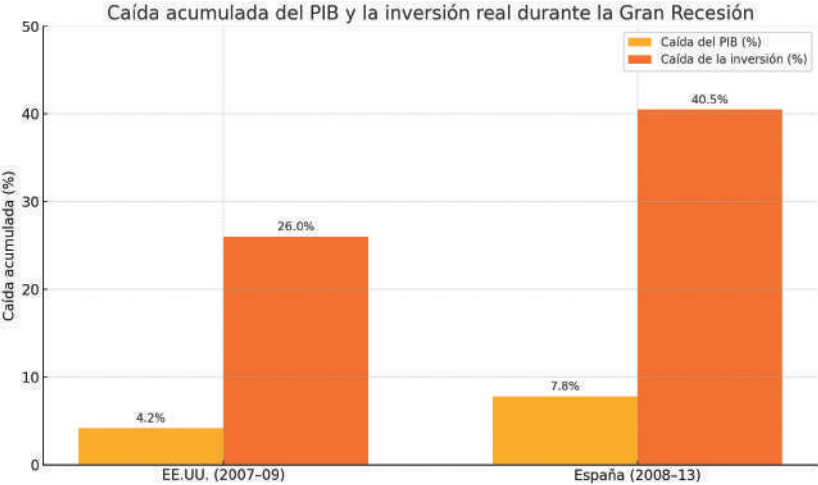
As has been demonstrated, Prof. Alonso Neira's contribution has been key to understanding the updated systematisation of Austrian theory, reinforced with empirical illustrations (beyond the Anglo-Saxon world), thereby fostering dialogue with other schools of thought, particularly with *mainstream* authors, who tend towards a more formalist and instrumental mathematisation, but lacking robust theoretical frameworks with universal appeal (as offered by the TACE and the Theory of Capital, Alonso Neira and Sánchez-Bayón, 2023 and 2024).

In short, the studies analysed provide a series of empirical illustrations of TACE and the Theory of Capital, contributing to the advancement of the Macroeconomics of Capital, not as a branch of General Economic Theory, but as a specialisation within the same research programme (Lakatos, 1978). In particular, it is also consistently observed that monetary policy and artificial credit expansions not based on voluntary savings tend to generate temporary economic booms followed by recessions, thereby distorting productive processes and structures. This behaviour arises as a consequence of a series of over-investment processes not backed by an accumulation of real savings. In many cases, a lack of coordination in the behaviour of economic agents can be observed as a result of a distortion in their perception of risk and a distortion of the information system provided by the economy's relative price structure. Furthermore, financial indicators such as the slope of the yield curve emerge as leading indicators of these cycles, confirming that an excessively loose monetary policy sows the seeds of a subsequent downturn.

The studies reviewed utilise modern econometric techniques (e.g. VAR, Granger causality, cointegration, distributed lag models), enabling the quantification of effects, but without imposing themselves on theoretical frameworks, as they merely aim to illustrate these frameworks in order to substantiate their arguments. In general, the quantitative results (statistical significance of causal relationships, magnitude of estimated responses, etc.) support the central hypothesis of TACE: central bank interventions in interest rates have consequences (usually negative externalities) for the real economy, as they

alter the behaviour of economic agents (who respond to perverse incentives, such as an artificially low interest rate), leading to poor investment decisions that inevitably result in correction phases (unless there is further state intervention, which exacerbates the problem in the long term by institutionalising the negative externalities that undermine the economic system). For example, in the case of Spain and the United States, econometric analysis shows that when interest rates fell below their equilibrium level, the proportion of investment in capital goods (construction, durable goods) relative to consumption increased; and, once monetary policy shifted to a contractionary stance, these excessive investments collapsed, causing sharp falls in GDP and aggregate investment.

FIGURA 2.
COMPARISON OF THE CUMULATIVE FALL IN GDP AND REAL
INVESTMENT DURING THE GREAT RECESSION IN THE UNITED
STATES (2007–2009) VERSUS SPAIN (2008–2013)



Source: author’s own calculations.

The comparative chart above shows that in both the US and Spain, the recessionary phase following the credit boom entailed

sharp falls in investment (gross capital formation), exceeding the contraction in GDP, which is consistent with the idea that long-term investment projects (artificially fuelled during the boom) undergo an abrupt adjustment during the crisis. Spain experienced a particularly severe adjustment in investment (a cumulative fall of over 40 per cent) due to the scale of the misalignments generated during the property and credit bubble of the 2000s.

Overall, the theoretical systematisation and empirical evidence compiled by Alonso Neira and his colleagues in the studies analysed serve to reinforce the validity of TACE and the Theory of Capital, whilst also promoting the field of Macroeconomics of Capital and fostering dialogue with other schools of thought, thereby enabling a wider dissemination of Austrian Theory and its analytical foundations.

Conflict of interest

The authors declare that they have no conflicts of interest.

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THE FIRM AND THE ORGANIZATION OF PERCEPTIVENESS UNDER DYNAMIC EFFICIENCY

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I. INTRODUCTION

Perceptiveness is a central characteristic of entrepreneurship (Huerta de Soto, 2010). Nevertheless, in concrete market processes, perceptiveness does not automatically lead to the exploitation of opportunities. To become economically effective, it must be embodied in an organized structure of production; that is, it must lead to a particular arrangement of resources through which entrepreneurs seek profit.

In the *Theory of Dynamic Efficiency*, this problem becomes especially relevant. While this perspective clarifies how coordination is an open-ended entrepreneurial process, it remains insufficiently clear how perceptiveness is translated into an operative structure of production. Recent contributions have sought to apply the framework of dynamic efficiency to different dimensions of economic organization, clarifying its implications for the emergence and organization of the firm (Marion Ceolin, 2025), yet the implications of this framework have not yet been systematically integrated.

I address that gap by explaining how the firm emerges as the deliberate order through which entrepreneurial perceptiveness becomes operational in production. In this context, firms enable entrepreneurs to overcome the limits of individual action by

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coordinating the use of heterogeneous resources and the division of labor. The firm thus emerges not merely as the setting in which operations take place, but as the institutional arrangement that makes entrepreneurial plans executable in the market process.

This challenge requires a concept that the *Theory of Dynamic Efficiency* has not yet fully developed: governable perceptiveness. Within the firm, entrepreneurs hire labor and therefore depend on the perceptive capacities of multiple agents whose knowledge they cannot control. Governable perceptiveness refers to the portion of the distributed perceptiveness of agents within the firm that the directing entrepreneur can orient toward a coherent production plan. It is a relational and organizational concept that describes the degree to which the creative and interpretive capacities of others can be brought into productive coherence under entrepreneurial direction.

Governable perceptiveness provides the analytical thread connecting three dimensions of the firm. First, the article explains the emergence of the firm as a response to the limits of individual perceptiveness and as the means through which entrepreneurial perceptiveness becomes institutionalized in production. Second, it examines the internal organization of the firm under dynamic efficiency as a deliberate yet revisable order through which entrepreneurs coordinate heterogeneous assets under dispersed knowledge and uncertainty. Third, it argues that firm boundaries reflect the limits of governable perceptiveness, since expansion weakens the entrepreneur's capacity to govern the perceptiveness of agents within the firm, generating constraints on expansion that are epistemological in nature rather than contractual or technological. In doing so, it moves beyond current developments in the *Theory of Dynamic Efficiency* by offering a comprehensive and integrated analysis that connects the emergence of the firm, its dynamic internal organization, and its endogenous boundaries within a single coherent framework.

II.

THEORETICAL BACKGROUND

The *Theory of Dynamic Efficiency*, developed primarily by Huerta de Soto (2004, 2010) and further elaborated by Espinosa (2022),

Matarán (2024), Ravier (2020), Wang (2017, 2023), among others, conceives the market process as an open process of social coordination grounded in entrepreneurial creativity.

In this sense, a particular individual capacity is central to the human feature that allows entrepreneurs to create (or, in Huerta de Soto's words, discover *ex nihilo*) profit opportunities: perceptiveness. Perceptiveness is the interpretive ability that grounds individual thymological understanding of market conditions and future-oriented economic calculation, leading to entrepreneurial planning and choice (Huerta de Soto, 2010).

This point is especially important for understanding production. In Austrian capital theory, production is not a merely technical combination of inputs, but an intertemporal coordination of heterogeneous capital goods, complementary functions, and human plans. Mises (1998) emphasizes that production always requires action oriented toward future states of affairs, while Lachmann (1956) and Huerta de Soto (2006) stress that capital goods derive their economic meaning from the plans in which they are embedded. More recently, Bylund (2016, 2020, 2022) argues that production involves the organization of specialized tasks and complementary capabilities under uncertainty. From this perspective, entrepreneurial perceptiveness not only identifies market opportunities; it must also be translated into a concrete arrangement of capital, labor, time, and knowledge.

It is here that the firm becomes theoretically relevant. Huerta de Soto (2010, pp. 117-118) describes the firm as an island of organization that arises from individual perceptiveness. The role of the entrepreneur as the organizer of production has deep roots within the Austrian tradition. For Mises (1998), entrepreneurs are the agents who determine the allocation of capital through economic calculation, bearing the consequences of their choices. Rothbard (2004) extended this view, arguing that the capitalist-entrepreneur combines resources according to a plan, in pursuit of profits, while remaining exposed to the uncertainty of the future (D'Andrea, 2024).

The firm can therefore be understood as a deliberate order through which the entrepreneur seeks to render perceptiveness operational in production. Drawing on Hayek's (1964, 1973)

distinction between spontaneous orders and organizations, the firm is not a spontaneous market order, but a purposive arrangement governed by rules, plans, authority, and coordinated expectations. It emerges when entrepreneurial judgment requires a relatively coherent structure capable of aligning heterogeneous resources and multiple agents toward a conjectured future end.

However, although the *Theory of Dynamic Efficiency* offers a powerful account of entrepreneurship, creativity, and social coordination, it does not yet fully specify how entrepreneurial perceptiveness is converted into an organized structure of production. It leaves underdeveloped the internal mechanisms through which perceptiveness becomes firm organization, the way deliberate coordination is revised through time, and the limits that constrain the entrepreneur's ability to preserve coherence as the firm expands. This article addresses that gap by examining the emergence, internal organization, and boundaries of the firm under dynamic efficiency.

The theoretical relevance of the firm has been addressed from different perspectives in the literature, focusing, for example, on resources (Penrose, 1959; Barney, 1991) and knowledge (Grant, 1996; Kogut & Zander, 1992). Although these perspectives contributed to the understanding of the role of the firm in the market process, the perspective of dynamic efficiency adds relevant propositions to the literature, as Huerta de Soto (2004, 2010) takes into consideration the characteristics of subjective knowledge created in the entrepreneurial process.

III.

THE EMERGENCE OF THE FIRM IN THE THEORY OF DYNAMIC EFFICIENCY

Within Huerta de Soto's framework, firms arise as organizational solutions to the intrinsic limits of individual perceptiveness (Huerta de Soto, 2010, pp. 117-118). Although entrepreneurship is fundamentally an individual act, the cognitive and practical capacities of any single entrepreneur are necessarily bounded. As Huerta de Soto (2010) emphasizes, individuals face constraints in their

ability to assimilate, interpret, and coordinate dispersed knowledge within complex economic environments.

As entrepreneurial projects grow in scope and intertemporal complexity, the entrepreneur's subjective plan increasingly exceeds the limits of individual action (Huerta de Soto, 2010, pp. 33-34). The entrepreneur must increasingly depend on the perceptive capacities of others, raising the question of how much of that distributed perceptiveness can be governed toward a coherent, productive plan. At this point, the firm emerges as a deliberate organizational structure that enables the entrepreneur to extend their own perceptive capacity beyond personal constraints. Through the firm, entrepreneurs are able to integrate multiple sources of knowledge, coordinate heterogeneous resources, and structure production processes that could not be sustained through isolated individual action alone.

In this sense, firms function as mechanisms through which entrepreneurial perceptiveness is expanded and operationalized. By creating internal structures of coordination, division of labor, and authority, entrepreneurs transform their subjective interpretations of market conditions into organized patterns of production (Marion Ceolin, 2025). The firm thus becomes a means of amplifying individual perceptiveness. It embeds perceptiveness in an institutional arrangement capable of mobilizing the knowledge and capacities of multiple actors. Once individual capacity reaches its limits, firms enable entrepreneurs to delegate tasks and distribute cognitive responsibilities.

There is an intellectual division of labor (Mises, 1920) or dispersion of knowledge (Hayek, 1937, 1945), and that does not mean a dispersion of collectible information, but a dispersion in the generation of entrepreneurial knowledge in the entrepreneurial process. This limitation appears when individuals reach the point at which they can no longer profitably act upon the opportunities they have conceived.

Although the organization of the firm depends on the entrepreneur, it cannot be reduced to the entrepreneur alone. Production requires the coordinated participation of multiple individuals, each possessing specific knowledge and creative capacities. Under dynamic efficiency, the entrepreneur must therefore establish an

arrangement that cannot be governed through complete central control (Huerta de Soto, 2010, p. 118). The division and dispersion of knowledge impose natural limits on centralized control. This makes some degree of internal decentralization unavoidable.

The firm is not a mere extension of entrepreneurial perceptiveness, but rather the institutional locus in which perceptiveness becomes a coherent plan of production. The firm provides the institutional framework that turns perceptiveness into organized action. It must be embedded in a stable structure of execution that preserves the coherence of the entrepreneurial plan through time, aligns complementary capital goods (see Lachmann, 1947, 1948, 1956) within a single direction of action, and organizes a division of labor around that plan.

Such plans require an institutional arrangement capable of preserving coherence through time. In this sense, the firm is the deliberate planning order that makes entrepreneurial perceptiveness operational¹. Entrepreneurs can act outside firms, as they can discover and pursue profit opportunities in many settings. Nevertheless, some plans cannot be carried out through isolated market transactions, requiring the coordinated use of heterogeneous capital. They require stable complementarities among resources (Lachmann, 1947, 1948; Barbieri, 2001).

Firms are not arbitrary creations, but specific institutional arrangements that emerge from perceptiveness, put it into motion, and are committed to the employment of means in production. In this sense, the firm is the deliberate planning order through which entrepreneurial interpretation is converted into the coordinated performance of a plan of production.

The conditions of entrepreneurial projects involve more than the simple employment of isolated capital goods (see, e.g., Klein, 2016). They require the coordination of heterogeneous resources, the combination of complementary assets, and the assignment of specific functions to both capital and labor within an intertemporal

¹ Felin and Zenger (2009, 2017) argue that entrepreneurs act as theorists, formulating subjective conjectures about how resources can be combined to create value. The firm emerges as the concrete expression of this entrepreneurial theory. The firm is the institutional arrangement through which a conjecture is tested.

process. Capital goods acquire their productive meaning only within a plan (Huerta de Soto, 2006). The plan specifies their role in a causal sequence of actions, and such sequences frequently depend on the disciplined alignment of multiple tasks performed by different individuals (Lachmann, 1956; Mises, 1998). The firm enables the entrepreneur to construct and maintain this alignment by providing a deliberate allocation of resources. Penrose's (1959) conception of the firm as a bundle of productive services, rather than resources per se, emphasizes that what matters is not the objective characteristics of resources but the entrepreneur's subjective interpretation of how they may be deployed.

Under dynamic efficiency, the firm is especially important because entrepreneurial plans often require complementarities that cannot be fully exploited through isolated market exchanges. Entrepreneurs frequently depend on the coordination of interdependent assets and capabilities, which must be arranged as a coherent, productive system rather than as a set of independent transactions. In this sense, firms serve as the locus where entrepreneurs can mold unique combinations of heterogeneous resources into complementary structures of production, enabling the development of capabilities that reflect the particular requirements of each project.

Moreover, within the firm, entrepreneurs can align not only material capital goods but also the division of labor and the discretionary allocation of tasks. By hiring employees to perform specific functions, entrepreneurs incorporate additional knowledge and productive capacity into their plan while preserving the unity of direction required by the enterprise. The firm, therefore, becomes the institutional arrangement through which entrepreneurs coordinate the contributions of multiple individuals, integrating their actions into a single productive order oriented toward entrepreneurial ends.

Finally, the firm also provides the practical framework for economic calculation within entrepreneurial projects. Entrepreneurs define means and ends, evaluate alternative uses of resources, and act under uncertainty, seeking profit opportunities through the organization of production (Mises, 1998; Huerta de Soto, 2010). In this context, the firm emerges as the arrangement that makes such

plans operational by organizing the use of capital and labor into a coherent structure capable of producing for uncertain future markets. The firm is therefore not merely an auxiliary instrument of entrepreneurship, but a central institutional means through which entrepreneurial plans are articulated, executed, and sustained in the market process.

When entrepreneurs hire the labor of others, they can partially guide the exercise of perceptiveness within the firm. Employees are not mere executors of commands. They are themselves perceptive agents, continuously creating entrepreneurial knowledge that the directing entrepreneur can neither fully anticipate nor completely control. What the entrepreneur can do is establish the conditions (through command, rules, and the development of a shared perspective of action) under which the perceptiveness of others is partially oriented toward the coherence of the productive plan. This is the meaning of governable perceptiveness: not the entrepreneur's own perceptiveness extended over the firm, but the portion of the distributed perceptiveness of agents within the firm that can be directed toward a common productive purpose.

This concept relates to the distinction between original and derived judgment developed by Foss, Foss, and Klein (2007). While the original judgment belongs to the directing entrepreneur, the derived judgment is exercised by agents who receive delegated authority within specific domains of the productive structure. Governable perceptiveness is the perceptiveness that operates under derived judgment: the portion that can be productively oriented toward the execution of the entrepreneurial plan.

The portion that cannot be oriented through derived judgment becomes, from the standpoint of the directing entrepreneur, ungovernable. When delegated judgment exceeds the entrepreneur's capacity to keep agents' perceptiveness oriented toward the production plan, delegation tends to become unproductive or even destructive, as derived judgment would no longer be aligned with the production plan. Therefore, one of the limits of delegated judgment is the boundary of governable perceptiveness.

There is, therefore, an inherent limit to how far this governance can reach. Beyond a certain point, the perceptiveness of agents within the firm escapes the entrepreneur's directing capacity — it

becomes ungovernable, dispersed, and potentially dissonant with the productive plan. It is precisely this limit that the following sections will examine: first by considering how the internal organization of the firm is structured to maximize governable perceptiveness, and then by showing how the boundaries of the firm are endogenously determined by the point at which perceptiveness ceases to be governable.

IV.

THE ORGANIZATION OF THE FIRM UNDER DYNAMIC EFFICIENCY

1. **The Firm as the Organizational Expression of Perceptiveness**

Once entrepreneurial goals are established, entrepreneurs put capital into motion by creating an entity capable of executing a specific productive activity. Within the firm, resources acquire meaning in relation to the entrepreneur's plan. Capital goods are assigned functions, labor is organized into roles, and complementary assets are combined in ways that would not necessarily emerge through spontaneous market coordination alone. The firm becomes the locus where entrepreneurs design and implement an internal structure that enables the practical execution of intertemporal production plans.

From this perspective, the organization of production within the firm can be understood as a process of transforming perceptiveness into a deliberate arrangement. Entrepreneurs make asset allocation decisions, establish internal patterns of specialization, and structure the division of labor so that the various elements of production become mutually consistent. In doing so, the firm allows heterogeneous resources to be organized as a coherent system, coordinating complementary assets toward entrepreneurial ends.

In this sense, the organizational expression of perceptiveness is simultaneously the first act of governing it: by assigning functions, structuring roles, and combining complementary assets,

the entrepreneur begins to orient the distributed perceptiveness of agents toward the productive plan.

Firms possess a structuring component. They are structured entities that result in the coordinated use of resources. They incorporate a division of labor, defined by entrepreneurs, and often based on the guidelines they previously defined. As Hayek (1973) explained, orders involve an arranged state of affairs. In deliberate orders, the state of affairs results from direct deliberation. The founders and controllers of the order establish a system in which work and resources are coherently organized. Within firms, the task of orientation and arrangement of affairs is an entrepreneurial task.

If the firm is a deliberate planning order that renders perceptiveness operational, the central theoretical task is to specify the transformations through which entrepreneurial interpretation becomes a workable, though revisable, pattern of execution. Perceptiveness does not by itself yield organizational coherence. It must be institutionalized into a plan-execution architecture that sustains intertemporal complementarities, aligns heterogeneous capital uses, and copes with dispersed and continually changing knowledge.

Entrepreneurs are responsible for the combination and re-combination of assets (Lachmann, 1947, 1956). They do not simply design a structure and then allow individuals to perform within it, since they cannot achieve an equilibrium position in the market process. Conditions are changing, and entrepreneurs are constantly seeking better use of resources and anticipating consumer demand.

2. Authority, Rules, and the Governance of Distributed Perceptiveness

Against this background, entrepreneurial authority within firms functions primarily as a coordination mechanism for heterogeneous and complementary capital goods, rather than merely as a hierarchical control structure. Authority is not an end in itself, nor is it reducible to discipline or monitoring.

The governance of distributed perceptiveness within the firm differs from the problem addressed by principal-agent theory (Jensen & Meckling, 1976). Principal-agent theory focuses on incentive alignment under information asymmetry between a principal and an agent with potentially divergent interests. The present account treats the central organizational challenge not as one of aligning incentives but of orienting the distributed and continuously created perceptiveness of agents toward a coherent production plan.

Authority serves the practical role of ensuring coherence among interdependent activities, aligning the use of resources with the entrepreneurial plan. With authority, entrepreneurs can turn their perceptiveness into a deliberate planning and coordination structure, turning subjective plans into organized sequences of tasks and productive routines.

The scope of the structure is not mechanical: entrepreneurs arrange not only the work of machines but also the individual performance of certain tasks, which require the employment of specific entrepreneurial knowledge. Thus, the relevant dimensions of organization design² (Joseph & Sengul, 2025) are not mechanical settings but prospective arrangements of authority, coordination, capital goods, and work.

The knowledge-based view of the firm (KBV), developed by Grant (1996) and Kogut and Zander (1992), offers a partial parallel to the argument developed here. For the KBV, the firm exists precisely because it integrates and coordinates dispersed individual knowledge more efficiently than markets can. The primary problem of organization is therefore epistemological: how to combine specialized knowledge held by different individuals into a coherent, productive outcome.

This resonates with the Austrian account of dispersed and tacit entrepreneurial knowledge. However, a fundamental divergence separates the two frameworks. From the perspective of dynamic efficiency, entrepreneurial knowledge is not a stock but a flow: it is

² Joseph and Sengul (2025) synthesized various research on the subject and identified four interconnected dimensions of organization design: configuration, control, channelization, and coordination.

created ex nihilo through the exercise of perceptiveness, modified continuously as entrepreneurs reinterpret market conditions, and cannot be centralized or fully articulated. The organizational implications are profound: the *Theory of Dynamic Efficiency* holds that no such optimal knowledge integration is attainable, since the knowledge to be coordinated is itself being created and revised throughout the process of coordination.

For a firm to rely on commands alone, knowledge would have to be concentrated in the commanding authority, and a command would have to be formulated for every relevant fact (Ioannides, 2003). In a dynamically efficient and complex reality, firms cannot rely only on commands. In this sense, a type of organizational rule is developed. These rules that coordinate the work are different from the rules that emerge naturally in spontaneous orders. As Hayek (1964) pointed out, rules of organizations are rules developed to direct the performance of specific tasks, presupposing the deliberate disposition of employees by command. Based on this structure, rules regulate the details of actions.

Within the structure of the firm, individuals may also develop a shared interpretive orientation, which gives individual action a more cohesive sense-making framework. Rules are relevant to stabilize and govern individual action, but they also have their limits. Proxy-entrepreneurs must incorporate a specific action framework and an interpretive perspective that guide the performance of derived judgment. This shared perspective enables the use of specific entrepreneurial knowledge while maintaining the coherence of the entrepreneurial plan in pursuit of profit and entrepreneurial purposes.

Individuals are not tabula rasas that can receive complete indoctrination, but their ideologies influence them in their choices. As Mises (1998, pp. 178-184) explains, ideologies are the doctrines concerning individual actions and social arrangements. Therefore, ideologies have a particular role in shaping our interpretation of facts and guiding our actions. Firms cannot mold the capacities of their employees ex nihilo, but they can orient them by fostering particular knowledge and encouraging a more coherent pattern of action. This is not an instantaneous process; firms develop such a shared perspective through continuous recruitment, selection, and development.

There is no delegation without authority. Entrepreneurs control the residual rights to the employment of their capital, and they decide whether to exercise those rights directly or indirectly (through delegation). Intrapreneurship is constantly constrained and depends on the entrepreneurial authority, which decides the limits for the exercise of intrapreneurship within the firm.

The concept of intrapreneurship has been extensively analyzed in management literature (Burgelman, 1983; Pinchot, 1985). The present account extends this perspective: where Pinchot and Burgelman focus on the structural and incentive conditions for intrapreneurial activity, the *Theory of Dynamic Efficiency* highlights that the creative perceptiveness of employees is neither fully predictable nor fully governable by the directing entrepreneur.

The delegation of governable perceptiveness is not arbitrary, as it is mediated and disciplined by monetary calculation. As Mises (1944, pp. 32-33) explains, economic calculation provides the entrepreneur with an indispensable tool for measuring the efficiency of delegation. It allows the entrepreneur to evaluate whether delegated judgment is being productively exercised by intrapreneurs. Without calculation, delegation becomes uncontrollable, as the entrepreneur loses the means to assess whether the distributed perceptiveness of agents is generating value or dissipating it. Monetary calculation enables the entrepreneur to align distributed perception across the firm's productive structure.

In contemporary organization theory, coordination is one of the main tasks of design (as in Burton & Obel, 2018; Joseph & Sengul, 2025). It is a key aspect of the organization of the firm, understood here as a dynamic arrangement that coordinates the inter-subjective creation of entrepreneurial knowledge and the organization of purposeful actions within a production process.

3. Provisional Coherence: Organization Under Dynamic Efficiency

The provisional nature of organizational coherence follows directly from the nature of governable perceptiveness itself. Since the perceptiveness of agents within the firm is continuously created and

revised, the governance of that perceptiveness can never be fully stabilized.

There is a paradox in the relationship between firms and entrepreneurial knowledge. Firms contain a specific plan. They are created to organize resources, as entrepreneurs see them as the most suitable structure for their goals (Huerta de Soto, 2010, p. 117). By contrast, the dynamically efficient process of entrepreneurial creation is a spontaneous process based on individual perceptiveness. Indeed, based on this paradox, Huerta de Soto (2010, p. 117) proposes that there is a critical size for the firm related to the volume of entrepreneurial knowledge it can efficiently coordinate. In his understanding, the division of knowledge becomes broader and deeper, and the expansion and integration of each firm becomes more difficult. The nature of entrepreneurial knowledge may therefore counteract the trend towards the "economies of scale" (Huerta de Soto, 2010, p. 118).

As action is future-oriented, the internal organization of the firm must be continually revised in light of changing entrepreneurial perceptions, which in turn modify entrepreneurs' knowledge and their interpretation of how resources should be organized. In this sense, an optimum structure is unattainable.

The firm reflects entrepreneurs' subjective evaluations about resources and how people are likely to act, resulting in a particular perspective on how consumers can be satisfied. Hence, the firm is a deliberate order, the most appropriate means to exercise entrepreneurship and organize production processes. Entrepreneurs, guided by their interpretation of markets and subjective deliberation, establish a unique organizing perspective that shapes the firm's architectural development. Firms are deliberate entrepreneurial orders precisely because entrepreneurship is their essential aspect.

Every design is therefore an active real-time experiment, a product of entrepreneurial subjective perceptiveness grounded on ex-ante evaluation. There is no perfect positioning or quantifiably efficient design of a firm. In this sense, a firm under dynamic efficiency is understood as a provisional organization of complementarities, an attempt to convert expectations into workable responsibilities and interfaces.

Within this dynamic process, the internal organization of the firm is never fully settled. Firms develop arrangements that continually seek to create value, and the process of internal organization depends not only on entrepreneurial decisions but also on how intrapreneurs employ the creative capacities they develop within the firm.

V.

GOVERNABLE PERCEPTIVENESS AND THE BOUNDARIES OF THE FIRM

Huerta de Soto's theory implies that the limits of governable perceptiveness ultimately constrain the boundaries of the firm. In a way that parallels Rothbard's (2004, pp. 645-651) extension of the economic calculation argument, Huerta de Soto (2010, p. 117) offers a complementary explanation of firm boundaries that goes beyond contractual or purely technological accounts.

As Huerta de Soto (2010, p. 118) explains:

"In fact, as the division of knowledge becomes broader, deeper, and more detailed, and social and economic processes grow more complex as a result, it becomes more difficult for a company to integrate vertically and expand, since its management has to interpret and use a larger volume of more complex information."

Huerta de Soto emphasizes the interpretive limits involved in organizing production as the division of knowledge deepens (Mises, 1998; Huerta de Soto, 2010). At a certain point, the complexity of these processes exceeds the capacity of managers to interpret and apply the knowledge required for coordination. Huerta de Soto therefore posits a critical size beyond which further expansion becomes inefficient, not because coordination is impossible in principle, but because the interpretive demands of integration become increasingly unmanageable (Huerta de Soto, 2010, pp. 117-118).

This limitation becomes particularly evident when internal integration reduces the scope of external market prices for capital goods. As firms expand and internalize transactions, market price

signals are replaced by internal transfers and administrative estimates. Even when managers attempt to approximate market values, such calculations remain inevitably arbitrary, since they lack the informational and disciplinary function of genuine exchange (Mises, 1998; Huerta de Soto, 2010).

The limits of firm growth, for Penrose (1959), derive from managerial capacity: the ability to coordinate an expanding resource base coherently over time. This resonates with the argument developed here, insofar as both accounts locate the boundaries of the firm in a cognitive and coordinative constraint rather than in technological or contractual factors. The present account may therefore be read as recovering the subjectivist and dynamic spirit of Penrose's original insight within a more rigorous entrepreneurial framework, while rejecting the objectivist turn taken by mainstream RBV.

The epistemological nature of governable perceptiveness distinguishes the present perspective from the principal theories of the firm in the literature. Transaction cost economics (Coase, 1937; Williamson, 1985) locates the existence and boundaries of the firm in comparative governance costs. The knowledge-based view (Grant, 1996; Kogut & Zander, 1992) shifts the focus to knowledge integration, treating the firm as a superior mechanism for combining dispersed individual knowledge into productive outcomes. The resource-based view (Barney, 1991) explains the firm through the possession and deployment of valuable resources and capabilities. In each case, the firm is understood largely as a response to given conditions that exist independently of the entrepreneurial act of interpretation.

The *Theory of Dynamic Efficiency* inverts this logic. Firms emerge as expressions of entrepreneurial perceptiveness about how resources, knowledge, and complementarities can be organized to create value that does not yet exist. The relevant constraint is therefore not the cost of contracting, the difficulty of knowledge absorption, or the availability of strategic resources, but the entrepreneur's capacity to sustain governable perceptiveness as the firm's productive structure grows in complexity. This is an epistemological constraint in the precise sense: it concerns not what the entrepreneur knows, but the entrepreneur's ongoing capacity to interpret,

coordinate, and revise a structure of production whose knowledge base is itself being continuously created and dispersed throughout the market process. Where governable perceptiveness reaches its limits, the firm reaches its boundaries: not because contracts become too costly or resources too scarce, but because productive coherence can no longer be sustained internally.

There is a limit at which the entrepreneur loses the ability to influence and coordinate the different activities of individuals within the firm, leading to a loss of coherence. The recognition of subjectivity and individual perceptiveness allows a more precise understanding of the limits of the firm. In addition to the calculation limitation, there is an entrepreneurial limitation in coordinating individual perceptiveness.

This limit manifests in two directions. Under-delegation concentrates more power in the entrepreneur than can be effectively exercised, generating overload and organizational rigidity. In this situation, entrepreneurs concentrate more decisions in their own hands than they can effectively exercise and therefore fail to capitalize on employees' perceptive capacity. The firm, therefore, could expand its delegation and scope of activities, but under-delegation blocks these developments.

Over-delegation, by contrast, fragments productive coherence. As intrapreneurs operate increasingly autonomously, the rules established by the entrepreneur become less easily transmitted, and agents progressively escape orientation. Over-delegation occurs when the scope of delegated judgment exceeds the limits of governable perceptiveness, leading to an unproductive or destructive exercise of judgment. Although agents may appear "efficient" within their narrow domains of action, their decisions may generate dispersed and non-cohesive results at the level of the entrepreneurial plan, thereby undermining entrepreneurial profitability.

Beyond a certain scale, these problems are compounded by the difficulty of sustaining the ongoing creation of entrepreneurial knowledge. As organizational complexity increases, the firm faces greater challenges in generating, transmitting, and coordinating the dispersed knowledge necessary for effective adaptation. The widening gap between the complexity of the productive structure and the interpretive capacity of those directing it weakens the firm's ability

to reorganize resources competitively. In this sense, the firm's boundaries reflect the limits of organizationally governable perceptiveness: the point at which further expansion undermines the entrepreneur's capacity to coordinate heterogeneous resources in a coherent and economically meaningful way (Huerta de Soto, 2010).

VI. IMPLICATIONS

By clarifying the relevance of the firm for the dynamically efficient market process, the present article has several theoretical implications. For the theory of the firm, the article offers an entrepreneurial-cognitive microfoundation of the firm. Firms should not be treated merely as contractual arrangements, but as deliberate orders through which entrepreneurial perceptiveness becomes a structured organization of production. Firms are not mere appendices to entrepreneurship, but essential devices for the execution of entrepreneurial plans. The firm, therefore, acquires a microfoundation centered on perceptiveness, rather than only on contracts, resources, or transaction costs.

For internal organization and organization design, the argument suggests that coordination within the firm should be understood as an epistemological and entrepreneurial problem, not merely as a technical one. Internal structure serves to preserve coherence under conditions of dispersed knowledge, heterogeneous capital, and uncertainty. In this sense, the article dialogues with the literature on organizational design, knowledge coordination, and entrepreneurial governance, while adding a specifically Austrian account of how internal organization emerges from the need to operationalize entrepreneurial perceptiveness. Organizational design is not merely a technical arrangement of tasks, incentives, or routines, but rather a provisional structure through which the entrepreneur seeks to preserve coherence among heterogeneous assets, dispersed knowledge, and evolving expectations.

Regarding firm boundaries, the article implies that the limits of the firm do not derive from technology, contracts, monitoring

costs, or transaction costs alone, but from the limits of governable perceptiveness. As productive structures become more complex, the entrepreneur's capacity to interpret, coordinate, and maintain coherence weakens, generating endogenous limits to expansion. In this way, the article links firm emergence, internal organization, and firm boundaries within a unified account of production under dynamic efficiency.

For entrepreneurship theory, the article implies that entrepreneurship should not be understood only as the discovery or creation of opportunities, but also as the organization of production required to make those opportunities operational. Entrepreneurial action does not end with perception; it requires the construction of arrangements capable of transforming perceived possibilities into coordinated productive activity. The firm is thus the institutional continuation of entrepreneurship in the domain of production.

More broadly, the article contributes to the *Theory of Dynamic Efficiency* by showing that the firm is not external to the market process, but one of the institutional forms through which dynamic efficiency is pursued. If dynamic efficiency depends on creativity, coordination, and the continuous generation of new possibilities, then the firm must be understood as one of the central structures through which entrepreneurial creativity becomes organized, tested, revised, and executed over time.

VII. CONCLUDING REMARKS

This article has introduced governable perceptiveness as the central concept for understanding the organization of the firm under dynamic efficiency. Governable perceptiveness is the portion of the distributed perceptiveness of agents within the firm that the directing entrepreneur can orient toward a coherent, productive plan. The firm is, therefore, precisely the deliberate order through which this governance becomes possible: the institutional arrangement that transforms individual perceptiveness into coordinated, executable productive action.

I proceeded with the argument in three steps. First, the article explained that firms arise as a response to the cognitive and practical limits of individual entrepreneurship, serving as mechanisms that extend perceptiveness beyond personal boundaries by coordinating heterogeneous resources, dispersed knowledge, and intertemporal plans. Second, it examined the internal organization of the firm as a deliberate coordination in which entrepreneurs continuously reshape complementary assets and the division of labor. Third, it argued that the limits of governable perceptiveness endogenously determine firm boundaries. Beyond a critical size, the entrepreneur's capacity to govern the distributed perceptiveness of agents can no longer sustain productive coherence, as the deepening division of knowledge and growing complexity undermine the entrepreneur's ability to maintain coherence in the production arrangement.

These arguments constitute an integrated account of the firm that connects emergence, internal organization, and boundaries within a single coherent framework of dynamic efficiency. The concept of governable perceptiveness is the analytical thread that makes this integration possible, allowing the development of microfoundations of the firm within the *Theory of Dynamic Efficiency*. The firm is a central institutional form through which entrepreneurial creativity becomes organized, tested, revised, and executed over time. The article thus advances the *Theory of Dynamic Efficiency* by showing that the emergence, internal organization, and boundaries of the firm can be understood as different expressions of the same problem: the governance of distributed perceptiveness under entrepreneurial direction.

Conflict of interest

The author declares that he has no conflict of interest.

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Documents

FROM VIENNA TO MADRID: A LIBERTARIAN VISION OF SCIENTIFIC AND MORAL TRUTH*

JESÚS HUERTA DE SOTO

Thank you very much to the Mises Institute and Joe Salerno for his kind introduction as well as for inviting me to deliver this “Ludwig von Mises Memorial Lecture” to celebrate the one hundredth anniversary of Murray N. Rothbard’s birthday. It is the second time I visit the Mises Institute to deliver this most important lecture: The first one was almost thirty years ago, back in April 1997, when I delivered a lecture on “The Scholastic Roots of the Austrian School”. In this second opportunity I am very happy to have been able to accept Joe’s invitation and to come with a very well represented retinue of ten of my colleagues and doctoral students. All of them are teaching as professors or making their research at our more than twenty-year-old Doctoral and Master Programs in Austrian Economics at King Juan Carlos University back in Madrid, and which is the only one officially approved and with full validity inside the whole European Union. You have already had the opportunity to hear from each one of them a detailed description of the so-called “Madrid Austrian Research Hub” and of all the activities we are developing every year, including the 54 Doctoral Theses on Austrian Economics that have been read up to now in our program. And here you have also copies of the English version of our main books published by Routledge, Edward Elgar, and by the Macmillan Austrian Series edited by my Madrid Colleagues, the German professor Philipp Bagus and the Canadian professor Dave Howden. And you will have the unique opportunity to buy these books that, as you know, have a hefty price of almost 100

* Ludwig von Mises Memorial Lecture (to celebrate Murray N. Rothbard’s 100th birthday).

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pounds each one, at the almost “stolen property” and symbolic price of 5 dollars per copy, thanks to the most generous help of the Spanish Jesús Huerta de Soto Foundation that is helping to finance our participation in this important event.

And now what I will do in the next forty minutes is to try to summarize not only my main contributions, but also “The Libertarian Vision of the Scientific and Moral Truth” as we see it from our Austrian School Hub in Madrid. And I will do it by focusing on a series of fundamental points.

Precisely, the youngest of all sciences, Economics is the one that has provided Humanity with the most important scientific contribution

The first one is that Economics, being the last science to arrive, or as Mises said, “the youngest of all sciences,” has nevertheless achieved the milestone of providing Humanity with the most important scientific contribution. For the first time, and thanks to Economic Science, human beings have discovered and understood that voluntary social cooperation, free from all institutional and systematic external coercion, generates a spontaneous order that cannot be designed nor organized by anyone, and that peacefully and without limits drives the prosperity and expansion of Humankind.

This transcendental message of Economic Science, on the one hand, resolves the impossible antithesis of attempting to apply, within the realm of interactions carried out by human beings endowed with free will, the manipulative approach of external entities that human beings have no choice but to use, supported by technology and the natural sciences, in order to dominate the subject of the material world. And on the other hand, this is a radically revolutionary message: for the first time, it has been scientifically demonstrated that states, in any of their forms, are neither necessary nor viable; that Society, understood as a process of voluntary human interactions, does not need anyone to govern it, because it regulates and organizes itself spontaneously; and that the attempt to coordinate Society on the basis of social engineering and state coercive commands is impossible, doomed to failure, and gives rise to all kinds of distortions, social conflicts and violence, that continually hinder and block human progress.

Economic science is generalized into a complete Theory of Liberty that makes it possible to reinterpret History and promote the expansion of civilization

The second point is that Economics has been generalized into a whole Theory of Liberty, understood as the most essential attribute and requirement of human nature. Liberty means that all human actions are carried out voluntarily, based on the principle of non-aggression, and free of external coercion or violence imposed and organized from above by the always minority group of human beings who, under whatever title, exercise any kind of political power.

Moreover, Economics dismantles and turns upside down the erroneous and biased account of Thomas Hobbes and his followers. Neither was the "state of nature" a terrifying situation, nor did a supposed "social contract" ever exist or was it necessary to create and maintain a State that would impose order and guarantee peace. What happened was precisely the opposite: natural evolution consisted, above all, in the spontaneous discovery of the great advantages provided by voluntary exchanges and peaceful trade. Systematic and generalized violence, war, and terror arose only with the appearance of States, as coercive institutions composed of the most antisocial and violent human beings, who wanted (and still want) to live at the expense of plundering those citizens who earn their living by working and trading peacefully with each other (Oppenheimer, 1926).

Thus, Economics, demonstrates that what Étienne de La Boétie named "voluntary servitude", is an anti-human aberration to which human beings have been subjected for centuries. And that it is not necessary to continue with the resigned habit of obeying the State; nor do governments enjoy an aura of prestige (but are literally "stripped" of any attribute of intellectual or moral superiority); nor is the caste—or "praetorian guard"—of intellectuals, "experts", and acolytes that surround states and rulers to be regarded as untouchable; nor should we allow ourselves to be seduced and deceived by subsidies or perks, whether supposed or real, with which they seek to purchase the will and secure the loyalty of exploited human beings, so that they will consent, voluntarily and permanently, to their exploitation and servitude (De la Boétie, 1975).

Economics is the Science developed by the Austrian School of Economics, which should in fact be known as the Spanish School, as it has its origins in the thinking of our scholastics of the Spanish Golden Age

The third point is that Economic Science has reached its highest level of development thanks to the Austrian School of Economics. As you know, our school is based on the realism of its analytical assumptions, in the dynamic approach based on the entrepreneurial, creative, and coordinating capacity of every human being, and in the study of the spontaneous and self-regulated order of the social process of voluntary human interactions (Huerta de Soto, 2008). The institutional and multidisciplinary approach of the Austrian School is also very relevant. As a result of the spontaneous social process important institutions emerge which, in turn, make it possible and drive it forward: Law and property rights rooted in human nature and discovered and developed spontaneously outside the state; the family, a basic and essential institution, on which the expansion of Humanity is made possible and consolidated; moral principles, which act as a true “automatic pilot” for liberty and which human beings internalize and transmit from generation to generation, thanks to the family and other community or religious institutions; economic institutions, and in particular, money, which also evolves spontaneously outside the State, [and which can and should be considered the social institution par excellence, since by overcoming the problems of barter, it enables the exponential multiplication of voluntary exchanges and human interactions, within which the rest of the social, linguistic, moral, legal, economic, and religious institutions are discovered, shaped, and perfected.]

Our fourth point is that the first theorists of the spontaneous order emerged in the field of law, led by the great jurists of classical Rome. They were the first ones to understand the organic and evolutionary nature of the social process, and so they became, without being aware of it, the first economists. Their tradition was kept alive throughout the Middle Ages thanks to the Catholic Church and, through thinkers such as Saint Thomas Aquinas, Saint Antoninus of Florence, and Saint Bernardino of Siena, eventually came to influence the Spanish scholastics of the sixteenth and seventeenth centuries gathered around the University of

Salamanca. As Rothbard demonstrated (Rothbard, 1976) these thinkers of the Spanish Golden Age should be considered the most immediate precedent of the Austrian School of Economics, which, precisely for this reason, should be called the Spanish School of Economics. And in fact, these Spanish scholastics were already able to articulate the following ten essential principles which constitute the theoretical foundation of the Austrian School:

Firstly, the subjective theory of value developed by the Bishop of Segovia, Diego de Covarrubias, who as early as 1555 clearly explained that, although the objective nature of wheat is the same in Spain as in America, its price was higher in America because there human beings subjectively valued it much more highly; from this follows the correct relationship between prices and costs set out by Luis Sarabia de la Calle, in the sense that it is market prices that determine costs and not the other way around, as equilibrium theorists mistakenly believe; the Scholastics also realized that equilibrium models and prices lack realism and theoretical meaning because they presuppose a degree of knowledge “so complex that only God, and in no case human beings, could ever acquire it” (in latin “pretium iustum mathematicum licet soli Deo notum”), as already explained by the Jesuit cardinals Juan de Salas in 1617 and Juan de Lugo in 1643, more than three hundred years earlier than Hayek could conclude that “a science which assumes knowledge that can never be acquired is not a Science”; also the dynamic concept of competition is fundamental, understood as a process of rivalry among sellers based on the dynamic conception of market processes developed by Jerónimo Castillo de Bobadilla and Luis de Molina in 1589 and 1597, and that has nothing to do with the static model of “perfect competition” of equilibrium theorists; and also the important contributions of the Spanish Scholastics related with capital theory, business cycles, and the effects of fiduciary media generated by banks; so, particular emphasis should be placed on the rediscovery of the principle of time preference by Martín de Azpilcueta, following what Lessines had already stated in 1285; as well as on the fact that bankers commit mortal sin when they operate with fractional reserves, creating bank deposits as a form of virtual money (or *chirographis pecuniarium*, as Luis de Molina said in latin) that only exists in their accounting books and distorts the

structure of relative prices, creating bubbles and deep economic crises that ultimately “bring everything crashing down,” as Saravia de la Calle and Tomás de Mercado so vividly explained in the 16th Century; and in short, the Scholastic’s idea that it is impossible to organize society through coercive commands due to lack of the information that would be required to give them coordinating content; as well as the discovery that inflation is a hidden and very harmful tax that arises from an act of tyranny, since it is neither known nor accepted by citizens, which would even justify the assassination of the King according to the theory of tyrannicide, a contribution originally made by the Castilian Comuneros eventually defeated by the tyrant King Charles V in 1521, and developed by Father Juan de Mariana almost a century later [in 1610].

This entire line of proto-Austrian scholastic thought also spread throughout the Americas, especially in the newly founded universities of San Marcos in Lima and Mexico City in 1551 where brilliant disciples of these Scholastics, who had studied at the University of Salamanca itself, came to occupy prominent academic positions. Thus, for example, we should mention the cases of Bartolomé Frías de Albornoz in Mexico, and above all the great Juan de Matienzo, who became judge and president of the Royal Audiencia of Charcas and Lima from 1560 onwards (Popescu, 1997). Finally, the doctrine of our scholastics did spread even to North America two centuries later through the books of Juan de Mariana, who greatly influenced Thomas Jefferson and the founding fathers of the United States.

However, the southern part of the continent ultimately proved unable to neutralize the wave of growing statism and centralization that first came with the arrivals of the Habsburgs in Spain, and which was intensified even further after the arrival of the Bourbons with Philip V at the beginning of the eighteenth century (Martínez Marina, 1820). How different and much more prosperous and libertarian might the historical evolution of Spain and Latin America have been, had the statist centralism of the Habsburgs and the Bourbons not prevailed, and had the far more libertarian, local, and decentralized traditional representative institutions of the kingdoms of Castile instead remained predominant—institutions that were dismantled, together with Europe’s

first libertarian revolution, beginning with the defeat of the Castilian Comuneros at Villalar on April 23, 1521 (Leonard Liggio, 2025).

The most important and far-reaching contributions of economic science

Let us now turn, in greater detail, to the most important contributions of Economics, as developed by the Austrian School.

First, human cooperation takes place spontaneously, without the need for anyone to organize it coercively from outside. This is so because human beings are endowed with an entrepreneurial and creative capacity that continually drives them to discover the multiple opportunities for profit that arise in their environment. Each of these opportunities embodies a previous discoordination in human behavior that remains latent until it is discovered and overcome by the corresponding entrepreneurial act. This entrepreneurial act always arises from a creative tension and interpretation of events of the outside world that is essentially subjective and, therefore, cannot be reproduced by any artificial intelligence algorithm; in other words, the same objective events can be interpreted in multiple ways, even contradictory ones, without it being possible to postulate which is correct until the corresponding entrepreneurial process is completed in the form of a subjective profit. In any case, every entrepreneurial act involves, firstly, the creation of information that did not exist before (regarding the profit opportunity that arose from the previous discoordination that had gone unnoticed); secondly, the transmission of that knowledge (directly to the parties involved in the entrepreneurial act and indirectly through a series of institutions and signals such as market prices); and third and finally, the coordination of the previous maladjustments takes place when the parties involved learn *motu proprio*, that is, voluntarily and for their own benefit, to discipline their behavior according to the needs of others (for example, when they discover that they achieve their ends more effectively by specializing and trading peacefully the mutual results of their efforts). The discovery of the essence of this pure entrepreneurial act, with its elements of creation and transmission of information and the spontaneous coordination of the previous maladjustments continually generated by human coexistence, constitutes the most important contribution that Economic Science has provided to Humanity,

and explains why the spontaneous process of voluntary social cooperation that drives the multiplication of human beings and the expansion of civilization does not require any statist system of institutional coercion.

Another essential contribution of Economics is the concept of Dynamic Efficiency, understood as the process of unlimited expansion of human creativity and entrepreneurial coordination that arises only within a specific institutional framework of moral and legal norms. This framework is the one grounded on the ethical principle according to which every human being has a natural right to appropriate the results of his entrepreneurial creativity; that is, a property right over what one has created and which did not previously exist, which is the most obvious and important human right. For this reason, (dynamic) Efficiency and Morality and Justice (properly understood) cannot be separated one from the other; or, as we might say, they are two sides of the same coin in the sense that only Justice and Morality induce and generate efficiency; and at the same time, what is dynamically efficient in economic terms cannot be neither unjust nor immoral. All of which, on the other hand, demonstrates the integrated order that exists in the social universe, and highlights the three levels of research (theoretical, ethical, and historical) that complement and reinforce with each other and are essential in our search for truth (Huerta de Soto, 2000).

Finally, another key contribution of Economic Science is to have demonstrated the impossibility of socialism, or better, the impossibility of statism, in the sense that it is impossible for the State to achieve and coordinate what it promises for the following four reasons:

First, because of the enormous volume of information required for such coordination, which the State cannot acquire because it is dispersed in the minds of the eight billion human beings who participate and interact in the social process every day. Second, given the tacit and inarticulate character of this information (and therefore its inability to be transmitted in an objective manner). Third, because the information that is generated is not "given," nor is it static, but instead changes continuously as a result of human creativity, making it impossible to transmit today information that will only be created tomorrow, and which is precisely the information

that the organs of State intervention and the so-called “experts” would need today in order to direct society to achieve their objectives tomorrow. And fourth, and above all, because the coercive nature of State commands blocks the entrepreneurial activity of creating the very information which the State organization itself would need in order to give its commands a coordinating content. In sum, the State is always and everywhere violence and coercion; coercion blocks the entrepreneurial act of creation, discovery, and adjustment of dis-coordinated human behavior, while at the same time preventing the creation of the information and the emergence of free market prices that make economic calculation and social coordination possible. For this reason, statism is not only unnecessary but is also scientifically impossible.

The impact of these essential contributions of Economics on the course of social evolution has so far been very limited

All of these scientific contributions have so far achieved only a very partial, imperfect, and limited impact on the inertia of a social and political reality that has for centuries been characterized by the coercive power of States and rulers, and by the more or less resigned servitude of the citizens. And despite the very limited nature of this impact to date, which at best has materialized in a series of naïve and “liberal” revolutions aimed, with as much arrogance as lack of success, toward the impossible objective of trying to separate and limit the powers of states and rulers through political constitutions and “liberal democracies” (Rothbard, 2009); Humanity has been propelled as never before in those places and historical moments where it has managed, despite everything, to at least partially free itself from the State and open up some of the new channels of liberty shown by the teachings of Economics. Beginning with the Industrial Revolution, which was but the first chapter of the never-completed “Revolution of Liberty” inspired by Economics. And although what has been achieved in terms of prosperity and standard of living by the now eight billion human beings seems relatively significant—and indeed it is—we cannot even conceive of the standard of living and population size that could be achieved if Humanity were able to take full advantage of and fully implement the teachings of Economic Science.

We can be few and poor in a context of servitude and submission to the State, or many and wealthy in a context of liberty (Hayek, 1988, p. 133). The globe is practically empty of human beings (the Earth's current population would fit into an area equivalent to that of the state of Alaska, with a population density equal to that of Brussels). And we cannot even imagine the prosperity that could be achieved in a free market daily driven by eighty billion, or even eight hundred billion, human beings. Economics explains and demonstrates that the increasing prosperity of an ever-growing population of human beings never results from deliberate and coercive State plans, nor from the egalitarian income redistribution, nor from increases in public spending, nor from subsidies, debt, or inflation, but only arises from the free market of the capitalist system. This consists of the process of voluntary exchanges among all human beings who, endowed with an innate entrepreneurial and creative capacity, are able to detect and assess, through the system of free prices, the relative urgency and necessity of each good and service, overcoming the relative scarcity of each and satisfying, every day and in the best humanly possible way, the desires and needs of billions of consumers. Entrepreneurs who succeed in this never-ending process of profit-seeking accumulate significant resources, which, in turn, are saved and invested in capital goods and new technologies that make human beings increasingly productive, boosting their wages and standards of living; a virtuous process of continuously expanding prosperity and population growth that, if not coerced or hindered by the State, has no limits.

Therefore, it is crucially important for the future of Humanity that it be able to take full and maximum advantage of the lessons and essential message in pursuit of human liberty that Economics provides. But this will only be possible if we are able to unmask and carefully analyze the powerful forces of the pseudoscientific and counterrevolutionary reaction that has been mobilized to prevent the advance of the theory of liberty derived from Economic Science. Despite their diverse origins, they all converge on the same objective: to attempt to justify and preserve State coercion at all costs under the appearance of scientific legitimacy. They are driven by the "fatal conceit" (Hayek, 1988) of many visionaries,

thinkers, and supposed “experts” who believe themselves to be clever enough to correct the spontaneous market order, of course, using the violence and coercive power of the State. Together with a privileged caste of rulers, bureaucrats and acolytes, they continually manipulate a Humanity that is sadly accustomed to serving the State. For all of them, it is vital that statism be maintained and that the message of liberty provided by Economics never prevail.

Next, we will list the main reactionary pseudoscientific currents that have infiltrated Economic Science like a lethal virus and constitute, in Hayek’s terminology, “the counter-revolution of science” (Hayek, 1955).

Pseudoscientific reactionary currents opposed to Economic Science. The role played as “useful innocents” by many libertarian economists of the counterrevolutionary mainstream

First, positivism and scientism as pseudoscience. By “scientism” we must understand the improper application of the methods of the natural sciences to the field of Economic Science. Thus, while the natural sciences study their object of research as something external, measurable, and quantifiable, Economics studies the implications of the voluntary actions of human beings. And given the essentially creative nature of human beings, the supposed empirical “evidence” has, at best, only a superficial, partial, and always historically contingent value. In Bastiat’s words, of “what is seen” —or rather, what is believed to have been seen— but not “what is not seen” (Bastiat, 1995); and at worst, it always entails the assumption, that human beings are an object of research that can be manipulated as the matter of the external world studied by the natural sciences. This inevitably introduces the idea that to improve the world, the State and its rulers must use their coercive power to manipulate and change the things they believe they see in their historically contingent “empirical photos.” But these “empirical photos” cannot capture the underlying dynamic essence of spontaneous social processes, let alone what is already happening spontaneously to solve and coordinate every problem. Therefore, it is not surprising that from the very first steps of Economic Science promoted by the Austrian School, its most violent opponents were the “socialists

of the chair” gathered around the German Historical School, reinforced in France by the empiricists of the school of Saint-Simon, the insane Comte, and Durkheim, who sought to create a new and alternative pseudoscience of society. And their unhealthy positivist and ultra-empirical influence has persisted to the present day, first through American Institutionalism and later through the massive compilation of empirical data, for example, in the work of Wesley C. Mitchell or Henry Schultz, the latter, as shown by Professor Salerno, having gone on to exert a decisive influence on his assistant Milton Friedman and, through him, even on the Chicago School itself (Salerno, 2023).

Secondly, the pseudoscience of neoclassical economics is characterized by its claim that only its own approach constitutes true “science,” that is, the approach based on the principles of equilibrium, maximization, and constancy. Moreover, in addition to the lack of realism of its assumptions, it adds the reductionism of a mathematical language that has developed in response to the needs and demands of the natural sciences, but which is alien to Economic Science because it does not allow for the subjective concept of time or entrepreneurial creativity. Neoclassical economists develop their pseudoscience based not on real human beings of flesh and blood, but on “ideal types” that are like “robotic penguins” who, even in their most sophisticated dynamic stochastic general equilibrium models are limited to moving and reacting to events and State coercion as if they were characters of a sort of economic video game (“videogame economics”). Yet neoclassical pseudoscience, despite its apparent and ever-increasing sophistication, is not capable of accounting for the immense complexity of the real world and rebels against the idea of spontaneous market order in two ways that are equally harmful to human liberty: on the one hand, by promoting the coercive “social engineering” of central banks, States, and governments to use “fine tuning” to force reality toward to the mathematical optimum of their models; and, on the other hand, by labeling as “market failures” everything they believe they observe in reality that does not coincide, in their empirical studies, with their ghostly models of “perfect” equilibrium and adjustment (Milei, 2023); failures that, according to them, refute the “benefits” of the spontaneous order of the market and

human liberty, and justify their elimination as soon as possible by a coercive State authority. Note also how neoclassical pseudoscience needs, and feeds upon, the empirical work of the previous pseudoscience, positivism, in order to justify its conclusions against human liberty and in favor of State coercion, so that positivists and neoclassicists join hands and end up reinforcing each other in their reactionary agenda.

Third, Keynesianism and macroeconomics as pseudoscience. The very “macro” approach already entails, inevitably, an obvious bias in favor of justifying State intervention, aggression, and coercion against the spontaneous order of the market and human liberty. As F. A. Hayek pointed out in his Nobel Prize acceptance speech in 1974 (Hayek, 1978), macroeconomists ignore everything they cannot measure, specifically truly relevant economic processes and theories. At the same time, they believe that certain aggregate concepts—which lack genuine economic meaning—possess a “real” existence, that permits to collect empirical information or evidence that can be manipulated and statistically treated. Once again, macroeconomic pseudoscience goes hand in hand with positivist pseudoscience, and the two reinforce with each other in their counterrevolutionary reaction. Furthermore, Keynesianism is particularly harmful: not only does it flatly deny the coordinating capacity of creative entrepreneurship and the spontaneous market order, but it also builds as an alternative explanation a whole model—of course—of equilibrium with permanent unemployment, to justify the coercive intervention of the State in the lives of human beings in the form of all kinds of fiscal and monetary manipulations. Moreover, the macroeconomic and Keynesian pseudoscience feeds upon, and is reinforced by, the pseudoscientific approach of the Neoclassical School, to the point that, the so-called “neoclassical Keynesian synthesis” became, throughout the twentieth century, the main reactionary movement inside Economics. Keynesians and macroeconomists thus become the champions of that intoxication with statism, manipulation, and political power which constitutes the framework, orchestrated by governments and central banks, to which we have, regrettably, become accustomed and in which we are forced to live. This context repeatedly destabilizes the spontaneous market order,

generates serious financial and economic crises and social conflicts, and continually hampers the prosperity and advance of civilization.

We have left the quasi-religious mysticism of Marxist pseudoscience for last, because Marxism was scientifically dead even before it was born: in fact, it emerged with—and was theoretically demolished by—the subjectivist revolution led by the Austrian School of Economics. From the beginning, the Austrian School's development of time preference and capital theory revealed the contradictions and grave scientific errors of Marxism, while at the same time exposing its pronounced character as an intellectual fraud (Böhm-Bawerk, 1949). This intellectual fraud was historically illustrated by the collapse of the Soviet Union, and of virtually all other communist countries, after many decades of unspeakable human suffering for a large part of the world's population, all of which was perfectly consistent with the theory on the impossibility of statism developed by the Austrian School beginning with the von Mises of 1920 (Mises, 1936), and which was the final nail that forever sealed the coffin of the corpse of Marxist pseudoscience (Huerta de Soto, 2010).

Finally, in this context, we must mention the destructive role played by a number of distinguished economists who, although they defend liberty and the market economy, could be described as a kind of “useful innocents” in Mises' terminology (Mises, 1947). This is so because, even though they officially oppose rampant statism and defend liberty, by accepting—even if only partially—some of the postulates of the reactionary pseudoscientific currents we have described, they ultimately end up, often without intending to and much to their regret, providing additional impetus to the statist reaction within our discipline; for example, when they insist on advising States with proposals aimed at making them more efficient and at helping them do somewhat better things that they should not be doing at all. By way of illustration, we should include in this category of “useful innocents”, for example, thinkers as the Karl Popper of *The Open Society and Its Enemies* (Popper, 1966, p. 366), who came to admire the “scientific capacity” and even the “humanism” of Karl Marx, and who proposed a statist strategy of “piecemeal social engineering”; or George Stigler,

when he claimed that only empirical evidence could determine which economic system, socialism or capitalism, might function (Stigler, 1975, pp. 1-13); and, more generally, the members of the Chicago School, led by Gary Becker and Milton Friedman. Becker when defending that only economics developed within the strict limits of equilibrium, constancy, and maximization, typical of the neoclassical pseudoscience, constitutes true "economic science." And even more serious could be considered the case of Milton Friedman, whose very sincere love of liberty and intense and popular media support for free markets stand in sharp contrast to his pseudoscientific approach based on the aggregate method of economics of Keynesian origin, on positivist empiricism, and on the full acceptance of the unrealism of assumptions. Only in this way it can be explained Friedman's litany of scientific errors which, much to his regret, have invariably ended up reinforcing statist interventionism, to the point that Hayek himself was forced to conclude that after Keynes's *The General Theory*, the most dangerous book for Economic Science has been Friedman's *Essays in Positive Economics* (Hayek, 1994, pp. 145).

The failure of democracy and classical liberalism: the triumph of statism

As we see, many classical liberals and advocates of liberal democracy have also acted as "useful innocents." The fatal error of classical liberals lies in the failure to realize that their program is theoretically impossible, because it incorporates within itself the seeds of its own destruction, precisely to the extent that it considers necessary and accepts the existence of a State (even if it is "minimal") understood as the monopolistic agency of institutional coercion. Therefore, the great error of classical liberals is very basic: they believe in a program of political action and economic doctrine that aims to limit the power of the State, while at the same time accepting it and even considering state's existence necessary. However Economic Science has already shown that the State is unnecessary, that statism (even in its minimal form) is theoretically impossible, and that, given human nature, once the State exists, it is impossible to limit its power. On the other hand, liberal democracy is a concept as naïve as it is impossible. Mises already warned us that democracy could only function if all its

participants accepted the classical liberal principles, which is impossible because democracy itself encourages and amplifies vote-buying and the partisan use of power. So, the inevitable conclusion is that "liberal democracy" is a contradiction in terms as absurd as speaking (following Anthony de Jasay) of a "square circle," of "hot snow," or of a "virgin prostitute" (A. de Jasay, 1990). And even Hayek considered democracy unworkable if it is understood as the exercise of absolute power by majorities (*Kratos* in classical Greek). It should therefore come as no surprise that democracy once and again tends to be a perverse system based on lying and buying votes with money stolen through taxation.

The fact is that the State attracts like a magnet the worst passions and vices of human nature, for instance, when individuals try to obtain rents produced by others using the State's coercive power. Moreover, the combined effect of the privileged groups, the phenomena of governmental myopia and vote-buying, the megalomaniacal character of politicians, and the irresponsibility and blindness of bureaucracies generate a dangerous, unstable and explosive cocktail, continually shaken by social, economic, and political crises which, paradoxically, are always used by the political caste to justify further doses of intervention and statism that, instead of solving problems, further aggravate them. Statism therefore corrupts the entire social body and at the same time blocks the spontaneous and free market solutions of social and economic problems.

In fact, the State has become the "idol" that almost everyone turns to and worships. Statolatry is the most serious and dangerous social disease of our time. We are educated to believe that all problems can and must be detected and solved by the State. Our destiny depends on the State, and the politicians who control it are expected to guarantee everything our well-being may require. Human beings remain immature and rebel against their own creative nature, which makes their future always uncertain. They demand a crystal ball that assures them not only knowing what will happen, but also that any problems that arise will be solved for them. This "infantilization" of the masses is encouraged by politicians, as it justifies their own existence and ensures their popularity, position of dominance, and capacity to control. In

addition, a whole legion of intellectuals, so-called “experts,” and social engineers join in this arrogant intoxication of power. Not even the Church and the most respectable religious denominations have been able to realize that statolatry today constitutes the principal threat to the free, moral, and responsible human being; that the State is a false idol of immense power, worshipped by all, and that does not allow Humanity to be free from its control or have moral or religious loyalties beyond those the state can dominate. Furthermore, it is kept hidden from the public that the state is the true source of social conflicts and evils, and “scapegoats” (such as “capitalism” or private property) are blamed for the problems, and they become the goal of the most serious condemnations, even from moral and religious leaders, almost none of whom have realized the deception or dared to denounce that statolatry is the main threat in the present century to religion, morality, and, therefore, to human civilization.

Perhaps the main exception within the Church is included in the brilliant biography of Jesus of Nazareth written by Benedict XVI. That the State and political power constitute the institutional incarnation of the Antichrist should be obvious to anyone with a minimal knowledge of history who reads the former Pope’s considerations on the most serious temptation that the Evil One can present to us (and I quote Ratzinger literally): “The tempter is not so crude as to propose to us directly the worship of the devil. He merely proposes that we opt for the rational solution, that we prefer a planned and organized world in which God may have a place as a private spiritual matter, but must not be allowed to interfere in our essential purposes. Soloviev attributes to the Antichrist a book entitled *The Open Road to World Peace and Prosperity*; it becomes the new Bible, and its core message is the worship of well-being and rational planning,” by the state (Ratzinger, 2007). And so, we should not be surprised that, for example, the great author of *The Lord of the Rings*, J. R. Tolkien, whose Catholic anarchism I fully share, went so far as to say that he would arrest anyone for simply daring to pronounce the word “State.” Because the State is, always and everywhere, a reality of violence and systematic coercion against the most intimate essence of the human being, which is his capacity to act freely, creatively, and spontaneously; and so, it is

unavoidable to conclude that the State is essentially immoral and that statism constitutes the principal threat to humankind.

A theological digression: the dismantling of statism as a logical necessity inseparable from the work of God

And almost without realizing it, we can go ahead with a theological digression on how dismantling the State is a logical and moral necessity inseparable from the work of God. I fully understand that referring to God in this conference may come as a shock to many of those present, but I would ask that even those who do not believe in God, at least for dialectical purposes, make an effort of imagination and, for the next few minutes, imagine that God does indeed exist.

And what do we mean by God? We must understand God to be a Supreme Being, Creator out of love for all things. And the most important creature that God has created is precisely the human being: in His image and likeness. And if there is a point of connection between God and man, it is precisely in the creative entrepreneurial ability: the capacity to discover, to see, and to create new things, goals and actions. But now I am going to go one step further and attempt to demonstrate that God is not only the Supreme, loving Creator of all things, but that—moreover—God is libertarian.

And what does it mean to say that God is libertarian? It means that God, the Lord of all the Universe, has absolute power over it, and yet He chooses not to use force, but always leaves his creatures free. To the point that He gives human beings the freedom to rebel against Him; even though, again and again, God forgives human beings and allows them to rise up and begin anew.

God always lets the universe He has created, flow in a spontaneous manner (“laissez faire, laissez passer, le monde va de lui même” could be the motto of our libertarian God). And this despite the fact that human beings tempt God again and again and demand that He manifest His absolute power, that He give us clear and indisputable signs of His existence and supreme power in order for us to believe in Him. But of course, God does not accept our challenge. Why? Because love and liberty are inseparable, and a forced conversion, for example by an evident cataclysm, would be completely contrary to that liberty with which God has created human beings out of love.

Moreover, the Kingdom of God is not of this world; Jesus himself says this to a fearful Roman state official, who was also in charge of judging him: "My kingdom is not of this world." Does this mean that there are two types of kingdoms? The kingdoms of this world or States, which would be legitimate at their own level (remember "render unto Caesar the things that are Caesar's"), and the Kingdom of God, of ("render unto God the things that are God's"). That is the standard interpretation that has prevailed until now, but I think is completely wrong. The Kingdom of God—which is the exact opposite of the kingdoms or States of this world—never makes systematic use of violence and coercion: it is a Kingdom that has already come to us and, moreover, has been given to us freely, in an act of immense mercy and love (*Deus caritas est*). And just as the hateful institution of slavery came to an end, the Kingdom of God will also dismantle the kingdoms of this world, the states of this world, or as St. Paul said, of every principality, power, and glory (Ephesians 1:21-23), because God is libertarian and man is made in the image and likeness of God.

Ludwig von Mises, in his book *Interventionism*, introduced the term "destructionism" to refer to the economic and social effects of statism. If Evil (represented by statist destructionism in Mises' terminology) were to prevail, the human race and civilization would have disappeared long ago. The fact that, despite everything and the immense power of seduction of statism over humankind, the process of social cooperation continues to unfold and even prosper in certain historical periods and geographical areas, is a clear manifestation that God does not abandon the world nor leave libertarians alone in their struggle against the Evil; and that Good, represented by liberty, the principle of non-aggression, the spontaneous order of the market, entrepreneurial creativity and coordination, and above all, moral principles, always with God's help, prevails and is capable of overcoming Evil, represented by the fatal conceit of the statist ideal and the destruction that it produces.

And now I will finish with some thoughts on anarcho-capitalism as the only possible system of social cooperation truly compatible with human nature

And now I will finish with some thoughts on anarcho-capitalism as the only possible system of social cooperation truly compatible

with human nature. The most important intellectual and moral event that is taking place nowadays is the full fusion between Christianity and anarcho-capitalism. Because anarcho-capitalism is the only possible system of social cooperation that is truly compatible with human nature. Anarcho-capitalism is the purest representation of the spontaneous market order in which all services, including law, justice, and public order, are provided through a voluntary process of social cooperation. In this system, no area is closed to the drive of human creativity and entrepreneurial coordination; efficiency and justice in the resolution of problems are simultaneously enhanced, while the conflicts, inefficiencies, and discoordinations generated by the State are eradicated at their root.

The progressive abolition of States and their gradual replacement by a dynamic network of private agencies different legal systems, and providing all kinds of prevention and defense services, constitutes the most important social transformation that will take place in the twenty first century. Without forgetting that exactly what prevents us from knowing with precision what the future without the state will look like, the creative nature of entrepreneurship, is what gives us the peace of mind of knowing that any problem will tend to be resolved and overcome, once the entrepreneurial effort and creativity of Humanity are devoted to its solution (Kirzner, 1985).

Therefore, the revolution against the “Old Régime” carried out in the eighteenth and nineteenth centuries by the old classical liberals, today finds its natural continuation in the anarcho-capitalist revolution of the twenty-first century. The message of anarcho-capitalism is clearly revolutionary. Revolutionary in terms of its goal: the dismantling of the State and its replacement by a competitive market process consisting of a network of private agencies, associations, and organizations. And revolutionary in terms of its means, especially in the scientific, economic-social, and political fields:

- a) First, *Scientific revolution*, in the field of Economic Science, which becomes the general theory of spontaneous market order extended to all social areas. And by contrast and opposition, the theory and analysis of the effects of social discoordination generated by statism in any sphere in which it

operates, as well as the study of the transition process from the State towards liberty.

- b) Second, *an Economic and social revolution*, as we cannot even imagine today the immense human achievements and discoveries that could be made in an entrepreneurial environment totally free from statism. Today, and despite continuous governmental harassment, an unknown civilization is already developing, with a degree of complexity that is beyond the reach and control of the state, and which will achieve unlimited expansion once it manages to completely rid itself of statism. And when human beings become more and more aware of the perverse nature of the State that restricts them, and of the immense possibilities that are frustrated each day when the State blocks the driving force of their entrepreneurial creativity, the social demand to reform and dismantle the State will multiply creating a future that is largely unknown to us but that will elevate human civilization to heights that we cannot even imagine today.
- c) And finally, a *political revolution* in which, although day-to-day political struggle is important, it should not be the top priority. It is true that the least interventionist alternatives must always be supported, in clear alliance with the efforts of classical liberals in their long term impossible democratic limitation of the State (including reforms such as those proposed by Hayek in the third volume of *Law, Legislation, and Liberty*). But the anarcho-capitalist does not stop at this task, for he knows that he can and must do much more. He knows that the ultimate goal is the total dismantling of the State, and this goal leads all his imagination and political action in everyday life. And here we cannot fail to mention the unprecedented impact of our disciple and follower of our Master Program in Austrian Economics in Madrid, the President of Argentina, Javier Milei, who has done more than anyone else before to disseminate the principles of the Austrian School and the anarcho-capitalist ideal. Principles that he never ceases to quote and explain and defend once and again in all his public appearances, from the United Nations to the Davos Forum; and in all his meetings with other Heads of

State, universities, and parliaments, to whom he even gives copies of the most important Austrian works by Mises, Hayek and even myself, as he did, for example, with the two popes, Francis and Leo XIV, with the French President Macron, the Italian Prime Minister Meloni, and even with Elon Musk. For us, it is a great honor that Milei has, to a large extent, emerged from the Austrian School of Madrid and that he continually keeps drawing inspiration from us. This is, without a doubt, much more important than incremental political steps in the right direction—which should of course be welcomed—and that should never fall into a political pragmatism that could betray the ultimate goal of achieving the end of the State (Huerta de Soto, 2010).

And all this with tireless enthusiasm in the search for scientific and moral truth, an attitude that, inspired by the immortal work of Miguel de Cervantes, we could describe as follows: “It matters not whether they be giants or windmills, when the plume of our helm is stirred by the winds of tenacity and faith.” And always creating a future that, although it may seem distant today, may at any moment witness giant steps that will surprise even the most optimistic among us. History has entered into an accelerated process of change which, although it will never stop, will open a whole new chapter when humankind finally succeeds in ridding itself definitively of the State, reducing it to no more than a dark historical relic of tragic memory.

Thank you very much.

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CAPITALISM: THE DIVINE MACHINERY OF PARADISE*

JAVIER GERARDO MILEI**

Epilogue

There are books written to inform. There are books written to persuade. And there are books written because not writing them would be a betrayal. This is one of those. I did not choose it. It chose me. And now that I have reached the end, when the structure of the argument has served its purpose and the academic voice has said all it had to say, there is only one thing left for me to do: bear witness. For if there is one thing I have learnt, it is that behind every economic system lies a fundamental moral principle. Behind every policy lies a conception of humanity. And behind every conception of humanity lies an answer—whether conscious or not—to the oldest and most pressing question that exists: whether or not there is an order that transcends us. I have found that answer. And I cannot keep it to myself.

The conclusion I have reached is simple in its formulation and profound in its consequences: if one embraces Judeo-Christian values, one's spiritual life resonates in perfect harmony with one's material life, and as a result of that harmony, one prospers. When one rejects those values, material life comes into conflict with spiritual life, and the result is misery. This is neither an intuition

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nor a metaphor. It is a law as rigorous as any economic law. Two plus two equals four.

To understand why, we must start at the beginning. And the beginning, in the Hebrew tradition, is Genesis: *Bereshit*. The Torah does not open with a discussion or a commandment. It opens with a creation. And in that creation lies everything we need to know about the human condition and the order that God envisaged for it. The text reads: 'And God saw everything that He had made, and behold, it was very good' (Genesis 1:31). That radical goodness of the beginning is the key. The world that God designed for humankind was not a world of scarcity. It was a world of abundance.

What characterises paradise is radical abundance. Not merely the availability of every good one could desire, but also the removal of the most fundamental constraint faced by human beings on earth: time. If I wanted to consume the full variety of fruits that exist, my problem in this world would not be availability but time. But in paradise there is eternal life — *chayyei olam* in Hebrew — whereby time ceases to be a constraint. Nor does the body deteriorate in paradise. The machinery we inhabit here not only tires but also wears out. Your physical condition today is not the same as it was twenty years ago. In paradise, such deterioration does not exist.

By contrast, hell can be defined as radicalised misery, extreme misery. Not merely the absence of material goods, but the presence of time as a burden, as torment, as a day-to-day existence that crushes without any horizon. Jewish tradition speaks of *Gehenna* not only as punishment but as a consequence: the natural result of having strayed from the divine order.

This is where the reflection becomes deeper and more incisive. For before the State existed, before the market existed, before any system that man has built existed, there was work. And work was not born of transgression. It was born of design.

The Torah states this unambiguously: 'And the Lord God took the man and placed him in the Garden of Eden to till it and keep it' (Genesis 2:15). This predates the Fall. It predates transgression. It predates scarcity. Man worked in paradise with what we might call a divine endowment: an infinite cognitive capacity, directly bestowed by the Creator, which knew neither limit nor decline. He

had to name all the living creatures, which implies a complete mastery of language, biology, anatomy, geology and taxonomy. He did not learn it: he knew it, because the One had given it to him. Today, with all the artificial intelligence available, with all the language models and computing systems that humanity has built, there is not a single one that even comes close to the cerebral capacity that man possessed before the Fall. The storage, processing and comprehension at work in Adam were incomparably superior to any current AI, and to all of them combined. Not because man was more intelligent in a biological sense: but because he operated with a divine endowment, with a direct provision from the Creator. He worked, but did not sweat. He produced, but there was no scarcity. That is the original condition: work in obedience to the Creator, with infinite endowments, within an order that did not restrict him but rather fulfilled him.

And so the Torah says: 'You may eat from every tree in the garden.' (Genesis 2:16). Not just some. Not according to your ability. From everything. That is radical abundance. That is paradise.

Then came the Fall. And with the Fall came loss. But it is essential to understand what was lost and what was not. What was lost was not work. What was lost was the divine endowment with which man worked. Before the Fall, man had direct access to the Creator's provision: infinite resources, boundless cognitive capacity, effortless knowledge. After the Fall, all that was cut off. The endowments went from infinite to finite. Brain capacity was reduced to a fraction of what it had been. And technology—which in paradise was unnecessary because the Creator provided directly—became something that man must discover for himself, through effort, through trial and error, and over time. And what the Torah describes with brutal precision came to pass: 'By the sweat of your brow you shall eat your bread.' (Genesis 3:19). The same labour. But with a broken tool. The same command to produce and grow. But now with scarcity, with effort, with limits.

And at that moment—in the post-Fall world, in a world of finite resources and technology yet to be discovered—man has to choose how to organise himself. And here is the point I wish to emphasise strongly: capitalism is the system that God prepared through His law so that, after the Fall, work might continue. Man did not invent

it. Man discovered it by obeying. It is enshrined in the Ten Commandments, in the moral order that the Creator established before any state or any market existed. It does not restore the divine endowment that was lost. It does not restore to man the infinite capacity he possessed in Eden. But it is the only system which, in accordance with God's law, enables man to work, innovate, discover technology and generate prosperity within his present circumstances. And what is more: it is the path which, by aligning itself with that law, makes it possible to bring paradise to earth. Not the paradise of infinite endowments—that we have lost—but the possible paradise: radical abundance within the fallen world, achieved through obedience to the divine order.

The conditions capitalism needs to function are set out in the Ten Commandments. This is neither a metaphor nor an analogy. It is a structural correspondence that I wish to highlight with all the precision it deserves. And to do so, we must start at the beginning. At the very beginning: the first commandment in the Jewish version of the Torah.

In Judaism, the first commandment is not a command in the strict sense. It is a declaration. It is found in the Book of *Shemot* — the Exodus — in the parashah *Yitro*, and it reads: 'I am the Lord your God, who brought you out of the land of Egypt, out of the house of slavery.' (Shemot 20:2). God does not begin with a prohibition. He begins with an act of liberation. He presents Himself as the One who breaks chains, as the One who delivers humanity from slavery. That is the foundation of everything that follows. Before telling humanity what it must not do, God reminds it who set it free. Freedom is not a human achievement. It is a divine gift. And from that gift arises the responsibility not to enslave one's neighbour, not to subjugate them, and to respect their life plan without restriction. That is liberalism in its deepest essence: the unrestricted respect for one's neighbour's life plan, based on the principle of non-aggression and on the defence of the right to life, liberty and property. It is not a laboratory ideology. It is the direct consequence of the first commandment.

'Thou shalt not kill' (*Lo tirtzaj*): this is the absolute defence of the right to life. Without that right, no life plan is possible, no property is of any value, and no contract makes sense. It is the

commandment that establishes the principle of non-aggression in its purest form: no one may initiate the use of force against another. The life of one's neighbour is inviolable. Their body is inviolable. And that inviolability is the precondition for any free coexistence.

Thou shalt not steal (*Lo tignov*): without private property, there is no market. If the fruits of my labour can be confiscated by another — be it a thief or a State that redistributes by force — the incentive to produce disappears. Private property is not an arbitrary human convention. It is the recognition that a man's labour belongs to him, because the Creator Himself ordained it so.

Thou shalt not bear false witness (*Lo ta'aneh be-re'akha ed shaker*): without truth in a contract, no deal is possible. The free market is, at its core, a system of voluntary exchange based on truthful information. Lies corrupt it. Fraud destroys it. That is why honesty is not an optional virtue within capitalism: it is its very condition of existence.

You shall not covet (*Lo takhmod*): without respect for the property of others, there can be no peaceful coexistence. Covetousness—the desire to appropriate what belongs to another—is precisely the moral fuel of collectivism and Marxism. The Torah forbids it because it destroys the fabric of trust upon which any free social order is built.

These are the very same rules which in Judaism are called the *lo ta'aseh*, the 'do not's': the fence that protects free coexistence between individuals. And they are also the backbone of Christianity in all its traditions. The system that respects these norms—the system that makes private property and voluntary contract its pillars—is the system that is in harmony with God's law. And that harmony is not accidental. It is structural. Hans-Hermann Hoppe demonstrated with philosophical rigour that the combination of two principles — the principle of non-aggression, which derives from '*Thou shalt not kill*', and the Lockean principle of original appropriation, which derives from '*Thou shalt not steal*'—is the only possible basis for a just and efficient social order. Man's labour on unclaimed resources generates legitimate property. That property, protected by non-aggression, generates voluntary exchange. And that voluntary exchange, free from coercion, is the engine of prosperity. Jesús Huerta de Soto articulated this precisely with his concept of dynamic efficiency:

this system is not only just, but also maximises long-term economic growth, unleashing entrepreneurial creativity, decentralising knowledge and making freedom the shortest path to abundance. The path back to paradise. That is why capitalism, and no other system, is the one that leads to radical abundance.

There is a teaching I heard at a conference commemorating the Rebbe — Rebbe Menachem Mendel Schneerson, of blessed memory — which has stayed with me ever since: the mission was not to lead his people to the Promised Land, but to bring paradise to earth. And the reason runs even deeper: because God desires to have a dwelling place in the physical world, in the lower realms. It is not we who are striving to reach heaven. It is the Creator who wishes to dwell on earth. God's total, eternal and ultimate rule is not in the heavens alone. It is on earth.

This teaching has its roots in the Torah. In the Book of Leviticus, the Creator promises: 'If you walk in my statutes and keep my commandments, and put them into practice, I will give you rain in its season, and the land shall yield its produce, and the trees of the field shall yield their fruit.' (Leviticus 26:3–4). Material prosperity is the natural consequence of spiritual obedience. Paradise is not attained: it is brought about. And it is brought about by fulfilling God's law here, on this earth, in this time.

And it is in the Lord's Prayer too, for those who are willing to listen. The prayer does not say 'let us go to the kingdom'. It says: 'Thy kingdom come, on earth as it is in heaven.' Paradise comes to us. To us, who lost it. Who were cast out. Who cannot return by our own means. That is why the Creator comes to us: because we lost that place and can no longer regain it on our own. 'On earth as it is in heaven' is not a liturgical formula. It is a programme. It is bringing paradise to earth. And to bring it, humankind must keep God's law.

By keeping God's law, you will have an economic system that is just, that is efficient, and that also maximises growth and thus leads to radical abundance. That is capitalism in harmony with Judeo-Christian values: the way back. Not paradise itself—we lost that—but the system which, within the conditions of the fallen world, comes closest to it.

However, when one rejects God's law, when one subscribes to Marxism, the outcome is not uncertain. Marxism is not simply an alternative economic theory with correctable technical errors. It is something far more serious: it declares itself to be a satanic theory. Marx was a Satanist. His own early writings reveal this: the play *Oulanem* — an anagram of *Emmanuel*, the biblical name for Christ — is a hymn to destruction and hatred against the Creator. 'Soon I shall embrace eternity and hurl gigantic curses upon humanity,' Marx writes in that text. Richard Wurmbrand documented this rigorously in his book *Marx and Satan*. The texts exist. They have been published. They are available to anyone who wishes to read them. This is not a rhetorical accusation. It is a description of the worldview that lies at the root of the system.

And that worldview gives rise to a set of moral values that are the exact opposite of Judeo-Christian values: envy, hatred, resentment and unequal treatment before the law. And in its most extreme form, that system entails, depending on the group's objective, the physical extermination of individuals. This is not a theoretical possibility. It is the verifiable history of all the regimes that embraced that programme: one hundred million deaths and the systematic misery of the peoples who fell under their rule.

What Marxism does, in its theological essence, is to take the place of the Creator. Just as the Fall arose from the desire to be like God — 'you will be like gods', the serpent said to Eve (Genesis 3:5) — Marxism installs the totalitarian state — the state without limits, the state that encompasses and controls everything — in the place of the One: it decides what is just, it defines what is due, it distributes what it does not produce. It is not the State as a limited instrument in the service of order. It is the State as a substitute god, with absolute power and no accountability to any law that transcends it. It is the most ambitious and devastating attempt to replace the divine order with the human order. And the result is always the same: misery, death, hell on earth.

Whilst God's plan brings abundance and spiritual and material harmony, the Marxist programme is a satanic one which, instead of bringing you paradise, brings you hell. That is the programme opposed to God's plan. The choice is not political. It is moral.

The Torah brings the cycle to a close with a clarity that admits of no intermediate interpretations. In the Book of Deuteronomy, Moses speaks to the people before they enter the Promised Land: 'See, I have set before you today life and good, death and evil; for I command you today to love the Lord your God, to walk in His ways, and to keep His commandments, His statutes and His decrees, so that you may live and multiply, and the Lord your God may bless you.' (Deuteronomy 30:15–16). Life and good on the one hand. Death and evil on the other. There is no third way.

That is what this book seeks to convey, in the language of philosophy and economics, but with a conviction that comes from on high: that there is a moral order in the universe, that this order has concrete material consequences, and that the free man who honours God's law is building, brick by brick, drop by drop of sweat, the only paradise we are permitted to build in this life. Not the paradise we lost. The one we can bring about. The one brought about through obedience, through work, through freedom. The one brought about when one chooses life and goodness, and turns one's back once and for all on death and evil. That is the battle. And in that battle I stand. With everything I have.

All this applies to the individual. But the Torah does not stop there. It goes further. For what is true of the individual is also true of nations. And what is true of nations is especially true of those who govern them. The ruler who honours God's law not only prospers himself: he brings prosperity to his people. The ruler who rejects it not only falls himself: he drags his people into misery. That is the heaviest responsibility there is. And the Torah sets it out without euphemisms. In the Book of Proverbs it is written: 'When the righteous rule, the people rejoice; when the wicked rule, the people groan.' (Proverbs 29:2). And in Deuteronomy, Moses tells the people before they enter the Promised Land: 'You shall set a king over you... who will not turn his heart away from the commandments, so that he may prolong his days in his kingdom, he and his sons, in the midst of Israel.' (Deuteronomy 17:15–20). The king who obeys the law endures. The people who obey the law prosper. The nation that honours the divine order receives the blessing of that order. And the nation that rejects it faces the consequences. Not as an arbitrary punishment. But as a logical,

inevitable result, inscribed in the very nature of things since the beginning of time. I have understood this. And that is why I govern as I do.

Let anyone with ears to hear, hear. Let anyone who refuses to listen bear the consequences.

*May God bless the Argentine people;
may the forces of heaven be with us
and long live freedom, for God's sake!*

THE CLASH OF GROUP INTERESTS

LUDWIG VON MISES*

To apply the term "group tensions" to denote contemporary antagonisms is certainly a euphemism. What we have to face are conflicts considered as irreconcilable and resulting in almost continual wars, civil wars, and revolutions. As far as there is peace, the reason is not, to be sure, love of peace based on philosophical principles, but the fact that the groups concerned have not yet finished their preparations for the fight and, for considerations of expediency, are waiting for a more propitious moment to strike the first blow.

In fighting one another, people are not in disagreement with the consensus of contemporary social doctrines. It is an almost generally accepted dogma that there exist irreconcilable conflicts of group interests.

Opinions differ by and large only with regard to the question, which groups have to be considered as genuine groups and, consequently, which conflicts are the genuine ones. The nationalists call the nations (which means in Europe the linguistic groups), the racists call the races, and the Marxians call the "social classes," the genuine groups, but there is unanimity with regard to the doctrine that a genuine group cannot prosper except to the detriment of other genuine groups. The natural state of intergroup relations, according to this view, is conflict.

This social philosophy has made itself safe against any criticism by proclaiming the principle of polylogism. Marx, Dietzgen, and the radicals among the representatives of the "sociology of knowledge" teach that the logical structure of mind is different with different social classes.

If a man deviates from the teachings of Marxism, the reason is either that he is a member of a nonproletarian class and therefore constitutionally incapable of grasping the proletarian philosophy; or, if he is a proletarian, he is simply a traitor. Objections raised to

* See: <https://mises.org/library/book/clash-group-interests-and-other-essays>

Marxism are of no avail because their authors are "sycophants of the bourgeoisie." In a similar way the German racists declare that the logic of the various races is essentially different. The principles of "non-Aryan" logic and the scientific theories developed by its application are invalid for the "Aryans."

Now, if this is correct, the case for peaceful human cooperation is hopeless. If the members of the various groups are not even in a position to agree with regard to mathematical and physical theorems and biological problems, they will certainly never find a pattern for a smoothly functioning social organization.

It is true that most of our contemporaries, in their avowal of polylogism do not go so far as the consistent Marxians, racists, etc. But a vicious doctrine is not rendered less objectionable by timidity and moderation in its expression. It is a fact that contemporary social and political science makes ample use of polylogism, although its champions refrain from expounding clearly and openly the philosophical foundations of polylogism's teachings. Thus, for instance, the Ricardian theory of foreign trade is simply disposed of by pointing out that it was the "ideological superstructure" of the class interests of the nineteenth-century British bourgeoisie. Whoever opposes the fashionable doctrines of government interference with business or of labor-unionism is—in Marxian terminology—branded as a defender of the unfair class interests of the "exploiters."

The very way in which social scientists, historians, editors, and politicians apply the terms "capital" and "labor" or deal with the problems of economic nationalism is the proof that they have entirely adopted the doctrine of the irreconcilable conflict of group interests. If it is true that such irreconcilable conflicts exist, neither international war nor civil war can be avoided.

Our wars and civil wars are not contrary to the social doctrines generally accepted today. They are precisely the logical outcome of these doctrines.

II

The first question we must answer is: What integrates those groups whose conflicts we are discussing?

Under a caste system the answer is obvious. Society is divided into rigid castes. Caste membership assigns to each individual certain privileges (*privilegia favorabilia*) or certain disqualifications (*privilegia odiosa*). As a rule a man inherits his caste quality from his parents, remains in his caste for life, and bestows his status on his children. His personal fate is inseparably linked with that of his caste. He cannot expect an improvement of his conditions except through an improvement in the conditions of his caste or estate. Thus there prevails a solidarity of interests among all caste members and a conflict of interests among the various castes. Each privileged caste aims at the attainment of new privileges and at the preservation of the old ones. Each underprivileged caste aims at the abolition of its disqualifications. Within a caste society there is an irreconcilable antagonism between the interests of the various castes.

Capitalism has substituted equality under the law for the caste system of older days. In a free-market society, says the liberal economist, there are neither privileged nor underprivileged. There are no castes and therefore no caste conflicts. There prevails full harmony of the rightly understood (we say today, of the long-run) interests of all individuals and of all groups. The liberal economist does not contest the fact that a privilege granted to a definite group of people can further the shortterm interests of this group at the expense of the rest of the nation. An import duty on wheat raises the price of wheat on the domestic market and thus increases the income of domestic farmers. (As this is not an essay on economic problems we do not need to point out the special - market situation required for this effect of the tariff.) But it is unlikely that the consumers, the great majority, will lastingly acquiesce in a state of affairs which harms them for the sole benefit of the wheat growers. They will either abolish the tariff or try to secure similar protection for themselves. If all groups enjoy privileges, only those are really benefited who are privileged to a far greater degree than the rest.

With equal privilege for each group, what a man profits in his capacity as producer and seller is, on the other hand, absorbed by the higher prices he must pay in his capacity as consumer and buyer. But beyond this, all are losers because the tariff diverts production from the places offering the most favorable conditions for production to places offering less favorable conditions and thus

reduces the total amount of the national income. The short-run interests of a group may be served by a privilege at the expense of other people. The rightly understood, i.e., the long-run interests are certainly better served in the absence of any privilege.

The fact that people occupy the same position within the frame of a free-market society does not result in a solidarity of their short-run interests. On the contrary, precisely this sameness of their place in the system of the division of labor and social co-operation makes them competitors and rivals. The short-run conflict between competitors can be superseded by the solidarity of the rightly understood interests of all members of a capitalist society. But—in the absence of group privileges—it can never result in group solidarity and in an antagonism between the interests of the group and those of the rest of society. Under free trade the manufacturers of shoes are simply competitors. They can be welded together into a group with solidarity of interests only when privilege supervenes, e.g., a tariff on shoes (*privilegium favorabile*) or a law discriminating against them for the benefit of some other people (*privilegium odiosum*).

It was against this doctrine that Karl Marx expounded his doctrine of the irreconcilable conflict of class interests. There are no castes under capitalism and bourgeois democracy. But there are social classes, the exploiters and the exploited. The proletarians have one common interest, the abolition of the wages system and the establishment of the classless society of socialism. The bourgeois, on the other hand, are united in their endeavors to preserve capitalism. Marx's doctrine of class war is entirely founded on his analysis of the operation of the capitalist system and his appraisal of the socialist mode of production. His economic analysis of capitalism has long since been exploded as utterly fallacious. The only reason which Marx advanced in order to demonstrate that socialism is a better system than capitalism was his pretension to have discovered the law of historical evolution; namely, that socialism is bound to come with "the inexorability of a law of nature." As he was fully convinced that the course of history is a continuous progress from lower and less desirable modes of social production toward higher and more desirable modes and that therefore each later stage of social organization must necessarily be a better stage

than the preceding stages were, he could not have any doubts about the blessings of socialism. Having quite arbitrarily taken for granted that the "wave of the future" is driving mankind toward socialism, he believed that he had done everything that was needed to prove the superiority of socialism. Marx not only refrained from any analysis of a socialist economy. He outlawed such studies as utterly "Utopian" and "unscientific."

Every page of the history of the past hundred years belies the Marxian dogma that the proletarians are necessarily internationally minded and know that there is an unshakable solidarity of the interests of the wage-earners all over the world. Delegates of the "labor" parties of various countries have consorted with one another in the various International Working Men's Associations. But while they indulged in the idle talk about international comradeship and brotherhood, the pressure groups of labor of various countries were busy in fighting one another. The workers of the comparatively underpopulated countries protect, by means of immigration barriers, their higher standard of wages against the tendency toward an equalization of wage rates, inherent in a system of free mobility of labor from country to country. They try to safeguard the short-run success of "pro-labor" policies by barring commodities produced abroad from access to the domestic market of their own countries. Thus they create those tensions which must result in war whenever those injured by such policies expect that they can brush away by violence the measures of foreign governments that are prejudicial to their own well-being.

Our age is full of serious conflicts of economic group interests. But these conflicts are not inherent in the operation of an unhampered capitalist economy. They are the necessary outcome of government policies interfering with the operation of the market. They are not conflicts of Marxian classes. They are brought about by the fact that mankind has gone back to group privileges and thereby to a new caste system.

In a capitalist society the proprietary class is formed of people who have well succeeded in serving the needs of the consumers and of the heirs of such people. However, past merit and success give them only a temporary and continually contested advantage over other people. They are not only continually competing with

one another, they have daily to defend their eminent position against newcomers aiming at their elimination.

The operation of the market steadily removes incapable capitalists and entrepreneurs and replaces them by parvenus. It again and again makes poor men rich and rich men poor. The characteristic features of the proprietary class are that the composition of its membership is continually changing, that entrance into it is open to everybody, that continuance in membership requires an uninterrupted sequence of successful business operations, and that the membership is divided against itself by competition. The successful businessman is not interested in a policy of sheltering the unable capitalists and entrepreneurs against the vicissitudes of the market. Only the incompetent capitalists and entrepreneurs (mostly later generations) have a selfish interest in such "stabilizing" measures. However, within a world of pure capitalism, committed to the principles of a consumers' policy, they have no chance to secure such privileges.

But ours is an age of producers' policy. Present day "unorthodox" doctrines consider it as the foremost task of a good government to place obstacles in the way of the successful innovator for the sole benefit of less efficient competitors and at the expense of the consumers. In the predominantly industrial countries the main feature of this policy is the protection of domestic farming against the competition of foreign agriculture working under more favorable physical conditions. In the predominantly agricultural countries it is, on the contrary, the protection of domestic manufacturing against the competition of foreign industries producing at lower costs. It is a return to the restrictive economic policies abandoned by the liberal countries in the course of the eighteenth and nineteenth centuries. If people had not discarded these policies then, the marvelous economic progress of the capitalist era would never have been achieved. If the European countries had not opened their frontiers to the importation of American products—cotton, tobacco, wheat, etc.—and if the older generations of Americans had rigidly barred the importation of European manufactures, the United States would never have reached its present stage of economic prosperity.

It is this co-called producers' policy that integrates groups of people, who otherwise would consider each other simply as

competitors, into pressure groups with common interests. When the railroads came into being, the coach drivers could not consider joint action against this new competition. The climate of opinion would have rendered such a struggle futile. But today the butter producers are successfully struggling against margarine and the musicians against recorded music.

Present-day international conflicts are of the same origin. The American farmers are intent upon barring access to Argentinian cereals, cattle, and meat. European countries are acting in the same way against the products of the Americans and of Australia.

The root causes of present-day group antagonisms must be seen in the fact that we are on the point of going back to a system of rigid castes. Australia and New Zealand are democratic countries. If we overlook the fact that their domestic policies are breeding domestic pressure groups fighting one another, we could say that they have built up homogeneous societies with equality under the law. But under their immigration laws, barring access not only to colored but no less to white immigrants, they have integrated their whole citizenry into a privileged caste. Their citizens are in a position to work under conditions safeguarding a higher productivity of the individual's work and thereby higher wages. The nonadmitted foreign workers and farmers are excluded from enjoyment of such opportunities. If an American labor union bars colored Americans from access to its industry, it converts the racial difference into a caste quality.

We do not have to discuss the problem whether or not it is true that the preservation and the further development of occidental civilization require the maintenance of the geographical segregation of various racial groups. The task of this paper is to deal with the economic aspects of group conflicts. If it is true that racial considerations make it inexpedient to provide an outlet for the colored inhabitants of comparatively overpopulated areas, this would not contradict the statement that in an unhampered capitalist society there are no irreconcilable conflicts of group interests. It would only demonstrate that racial factors make it inexpedient to carry the principle of capitalism and market economy in its utmost consequences and that the conflict among various races is, for reasons commonly called noneconomic, irreconcilable.

It would certainly not disprove the statement of the liberals that within a society of free enterprise and free mobility of men, commodities, and capital, there are no irreconcilable conflicts of the rightly understood interests of various individuals and groups of individuals.

III

The belief that there prevails an irreconcilable conflict of group interests is age-old. It was the essential proposition of Mercantilist doctrine.

The Mercantilists were consistent enough to deduce from this principle that war is an inherent and eternal pattern of human relations. Mercantilism was a philosophy of war.

I want to quote two late manifestations of this doctrine. First a dictum of Voltaire. In the days of Voltaire the spell of Mercantilism had already been broken. French Physiocracy and British Political Economy were on the point of supplanting it. But Voltaire was not yet familiar with the new doctrines, although one of his friends, David Hume, was their foremost champion. Thus he wrote in 1764 in his *Dictionnaire Philosophique*: "*etre bon patriote, c'est souhaiter que su ville s'enrichisse par le commerce et soit puissante par les armes. Il est clair qu'un pays ne peut gagner sans qu'un autre perde, et qu'il ne peut vaincre sans faire des malheureux.*"* Here we have in beautiful French the formula of modern warfare, both economic and military. More than eighty years later we find another dictum. Its French is less perfect, but its phrasing is more brutal. Says Prince Louis Napoleon Bonaparte, the later Emperor Napoleon III: "*La quantite des marchandises qu'un pays exporte est toujours en raison directe du nombre des boulets qu'il peut envoyer a ses ennemis, quand son honneur et sa dignite le commandent.*"**

* ["To be a good patriot is to hope that one's town enriches itself through commerce and is powerful in arms. It is clear that a country cannot gain unless another loses and it cannot prevail without making others miserable."—ed.]

** *Extinction du Pauperisme*, ed. Paris, 1848, p. 6. ["The quantity of goods which a country exports is always directly related to the number of bullets which it can send against its enemies with honor and dignity demanded"—ed.]

Against the background of such opinions we must hold the achievements of the classical economists and of the liberal policies inspired by them. For the first time in human history a social philosophy emerged that demonstrated the harmonious concord of the rightly understood interests of all men and of all groups of men. For the first time a philosophy of peaceful human co-operation came into being. It represented a radical overthrow of traditional moral standards. It was the establishment of a new ethical code.

All older schools of morality were heteronomous. They viewed the moral law as a restraint imposed upon man by the unfathomable decrees of Heaven or by the mysterious voice of conscience. Although a mighty group has the power to improve its own earthly well-being by inflicting damage upon weaker groups, it should abide by the moral law and forego furthering its own selfish interests at the expense of the weak. The observance of the moral law amounts to sacrificing some advantage which the group or the individual could possibly secure.

In the light of the economic doctrine things are entirely different. There are, within an unhampered market society, no conflicts among the rightly understood selfish interests of various individuals and groups. In the short run an individual or a group may profit from violating the interests of other groups or individuals. But in the long run, in indulging in such actions, they damage their own selfish interests no less than those of the people they have injured. The sacrifice that a man or a group makes in renouncing some short-run gains, lest they endanger the peaceful operation of the apparatus of social co-operation, is merely temporary. It amounts to an abandonment of a small immediate profit for the sake of incomparably greater advantages in the long run.

Such is the core of the moral teachings of nineteenth-century utilitarianism. Observe the moral law for your own sake, neither out of fear of hell nor for the sake of other groups, but for your own benefit. Renounce economic nationalism and conquest, not for the sake of foreigners and aliens, but for the benefit of your own nation and state.

It was the partial victory of this philosophy that resulted in the marvelous economic and political achievements of modern

capitalism. It is its merit that today there are living many more people on the earth's surface than at the eve of the "industrial revolution," and that in the countries most advanced on the way to capitalism the masses enjoy a more comfortable life than the well-to-do of earlier ages.

The scientific basis of this utilitarian ethics was the teachings of economics. Utilitarian ethics stands and falls with economics.

It would, of course, be a faulty mode of reasoning to assume beforehand that such a science of economics is possible and necessary because we approve of its application to the problem of peace preservation. The very existence of a regularity of economic phenomena and the possibility of a scientific and systematic study of economic laws must not be postulated *a priori*. The first task of any preoccupation with the problems commonly called economic is to raise the epistemological question whether or not there is such a thing as economics.

What we must realize is this: if this scrutiny of the epistemological foundations of economics were to confirm the statements of the German Historical School and of the American Institutionalists that there is no such thing as an economic theory and that the principles upon which the economists have built their system are illusory, then violent conflicts among various races, nations, and classes are inevitable. Then the militarist doctrine of perpetual war and bloodshed must be substituted for the doctrine of peaceful social co-operation. The advocates of peace are fools. Their program stems from ignorance of the basic problems of human relations.

There is no social doctrine other than that of the "orthodox" and "reactionary" economists that allows the conclusion that peace is desirable and possible. Of course, the Nazis promise us peace for the time after their final victory, when all other nations and races will have learned that their place in society is to serve as slaves of the Master Race. The Marxians promise us peace for the time after the final victory of the proletarians, precisely, in the words of Marx, after the working class will have passed "through long struggles, through a whole series of historical processes, wholly transforming both circumstances and men."^{*}

* Marx, *Der Buergerkrieg in Frankreich*, ed. by Pfemfert, Berlin, 1919, p. 54.

This is meager consolation indeed. At any rate, such statements do not invalidate the proposition that nationalists and Marxians consider the violent conflict of group interests as a necessary phenomenon of our time and that they attach a moral value either to international war or to class war.

IV

The most remarkable fact in the history of our age is the revolt against rationalism, economics, and utilitarian social philosophy; it is at the same time a revolt against freedom, democracy, and representative government. It is usual to distinguish within this movement a left wing and a right wing. The distinction is spurious. The proof is that it is impossible to classify in either of these groups the great leaders of the movement. Was Hegel a man of the Left or of the Right? Both the left wing and the right wing Hegelians were undoubtedly correct in referring to Hegel as their master. Was George Sorel a Leftist or a Rightist? Both Lenin and Mussolini were his intellectual disciples. Bismarck is commonly regarded as a reactionary. But his social-security scheme is the acme of present-day progressivism. If Ferdinand Lassalle had not been the son of Jewish parents, the Nazis would call him the first German labor leader and the founder of the German socialist party, one of their greatest men. From the point of view of true liberalism, all the supporters of the conflict doctrine form one homogenous party.

The main weapon applied by both the right and the left wing antiliberals is calling their adversaries names. Rationalism is called superficial and unhistoric. Utilitarianism is branded as a mean system of stockjobber ethics. In the non-Anglo-Saxon countries it is, besides, qualified as a product of British "peddler mentality" and of American "dollar philosophy." Economics is scorned as "orthodox," "reactionary," "economic royalism" and "Wall Street ideology."

It is a sad fact that most of our contemporaries are not familiar with economics. All the great issues of present-day political controversies are economic. Even if we were to leave out of account the fundamental problem of capitalism and socialism, we must realize

that the topics daily discussed on the political scene can be understood only by means of economic reasoning. But people, even the civic leaders, politicians, and editors, shun any serious occupation with economic studies. They are proud of their ignorance. They are afraid that a familiarity with economics might interfere with the naive self-confidence and complacency with which they repeat slogans picked up by the way.

It is highly probable that not more than one out of a thousand voters knows what economists say about the effects of minimum wage rates, whether fixed by government decree or by labor-union pressure and compulsion. Most people take it for granted that to enforce minimum wage rates above the level of wage rates which would have been established on an unhampered labor market is a policy beneficial to all those eager to earn wages. They do not suspect that such minimum wage rates must result in permanent unemployment of a considerable part of the potential labor force. They do not know that even Marx flatly denied that labor unions can raise the income of all workers and that the consistent Marxians in earlier days therefore opposed any attempts to decree minimum wage rates. Neither do they realize that Lord Keynes's plan for the attainment of full employment, so enthusiastically endorsed by all "progressives," is essentially based on a reduction of the height of real wage rates. Keynes recommends a policy of credit expansion because he believes that "gradual and automatic lowering of real wages as a result of rising prices" would not be so strongly resisted by labor as any attempt to lower money wage rates.* It is not too bold a statement to affirm that with regard to this primordial problem the "progressive" experts do not differ from those popularly disparaged as "reactionary labor baiters." But then the doctrine that there prevails an irreconcilable conflict of interests between employers and employees is deprived of any scientific foundation. A lasting rise in wage rates for all those eager to earn wages can be attained

* Keynes, *The General Theory of Employment, Interest and Money*, London, 1939, p. 264. For a critical examination of this idea see Albert Hahn, *Deficit Spending and Private Enterprise*. Postwar Readjustments Bulletin, No. 8, U.S. Chamber of Commerce, pp. 28-29.

only by the accumulation of additional capital and by the improvement in technical methods of production which this additional wealth makes feasible. The rightly understood interests of employers and employees coincide.

It is no less probable that only small groups realize the fact that the free traders object to the various measures of economic nationalism because they consider such measures as detrimental to the welfare of their own nation, not because they are anxious to sacrifice the interests of their fellow citizens to those of foreigners. It is beyond doubt that hardly any German, in the critical years preceding Hitler's rise to power, understood that those fighting aggressive nationalism and eager to prevent a new war were not traitors, ready to sell the vital interests of the German nation to foreign capitalism, but patriots who wanted to spare their fellow citizens the ordeal of a senseless slaughter.

The usual terminology classifying people as friends or foes of labor and as nationalists or internationalists, is indicative of the fact that this ignorance of the elementary teachings of economics is an almost universal phenomenon. The conflict philosophy is firmly entrenched in the minds of our contemporaries.

One of the objections raised against the liberal philosophy recommending a free-market society runs this way: "Mankind can never go back to any system of the past. Capitalism is done for because it was the social organization of the nineteenth century, an epoch that has passed away."

However, what these would-be progressives are supporting is tantamount to a return to the social organization of the ages preceding the "industrial revolution." The various measures of economic nationalism are a replica of the policies of Mercantilism. The jurisdictional conflicts between labor unions do not essentially differ from the struggles between mediaeval guilds and inns. Like the absolute princes of seventeenth- and eighteenth-century Europe, these moderns are aiming at a system under which the government undertakes the direction of all economic activities of its citizens. It is not consistent to exclude beforehand the return to the policies of Cobden and Bright if one does not find any fault in returning to the policies of Louis XIV and Colbert.

V

It is a fact that the living philosophy of our age is a philosophy of irreconcilable conflict and dissociation. People value their party, class, linguistic group, or nation as supreme, believe that their own group cannot thrive but at the expense of other groups, and are not prepared to tolerate any measures which in their opinion would have to be considered as an abandonment of vital group interests. Thus a peaceful arrangement with other groups is out of the question. Take for instance the implacable intransigence of Leninism or of the French nationalisme integral or of the Nazis. It is the same with regard to domestic affairs. No pressure group is ready to renounce the least of its pretensions for considerations of national unity.

It is true that powerful forces are fortunately still counteracting these tendencies toward disintegration and conflict. In this country the traditional prestige of the Constitution is such a factor. It has nipped in the bud the endeavors of various local pressure groups to break up the economic unity of the nation by the establishment of interstate trade barriers. But in the long run even these noble traditions may prove insufficient if not backed by a social philosophy, positively, proclaiming the primacy of the interests of the Great Society and their harmony with the rightly understood interests of each individual.*

* [See, Ludwig von Mises, *Socialism, an Economic and Sociological Analysis* (London: Jonathan Cape, revised ed., 1951) pp. 328-351, and *Theory and History, an Interpretation of Social and Economic Evolution* (Yale University Press, 1957) pp. 112-146, for a further development of the ideas presented in "The Clash of Group Interests" —ed.]

THE EVOLUTION OF THE MARKET: TRADE AND CIVILISATION*

FRIEDRICH A. HAYEK

“How much is something worth? Whatever
the market is willing to pay for it.”

Samuel Butler

“Where there is trade, there are gentle manners.”

Montesquieu

The expansion of order into the unknown

We have already referred to the circumstances that fostered the emergence of extensive social orders, as well as the reasons why such orders both require and generate plural ownership, freedom and justice. We shall now analyse some other issues related to the foregoing, in particular the processes that gave rise to the evolution of trade and specialisation. These last two phenomena, which contributed so much to the expansion of social order, were scarcely understood in the early stages of civilisation. This lack of understanding has persisted for a long time, affecting even many eminent scientists and philosophers, none of whom, of course, ever managed to organise them deliberately.

The historical periods, circumstances and processes in question come to us shrouded in the mists of the past, so it is not possible to address their details with certainty and precision. Some level of specialisation and exchange must already have existed in the small communities where coexistence was based on the consensus of all its members. An embryonic form of trade might even have arisen

* *Fatal Arrogance*, Chapter III, 4th ed., pp. 79–92, Unión Editorial, Madrid 2019.

amongst the most primitive savages who, following the migratory patterns of certain animal species, would have discovered the existence of other human groups. Although there is convincing archaeological evidence of early trade, such evidence, whilst scarce, can easily be misleading. The items involved in such trade would almost certainly have been fungible, which is why they have left no trace of their existence. The less common goods that prompted some to part with such possessions would almost certainly have been of a more durable nature, given that they were regarded as stores of value. The absence of the materials needed to make ornaments, weapons and tools at the sites where these items have been found suggests that they must have been the subject of commercial exchange. We cannot, of course, uncover archaeological evidence of the salt trade, although remains of some of the items exchanged in return do occasionally turn up. It was not, however, the desire to acquire luxury goods, but rather to meet the most basic needs, that made trade an indispensable institution on which more and more primitive communities came to depend for their survival.

The existence of significant regular trade in Homer's time is reflected in the episode of the *Odyssey* in which Athena visits Telemachus in the guise of a ship's captain who has arrived with a cargo of iron to be exchanged for copper. The great expansion of commercial activity, which gave rise to the subsequent flourishing of classical civilisation, took place, according to archaeological research, even in the remote times for which we have almost no historical documentation, that is, in the centuries between 750 and 550 BC. This commercial expansion appears to have led, at that time, to a marked increase in the population of Greek and Phoenician trading centres, which rivalled one another in the establishment of colonies, to the extent that by the beginning of the classical era they all depended vitally on regular commercial activity.

There can therefore be no doubt as to the existence of a certain degree of commercial activity even in the most primitive stages of history, nor as to its decisive influence on the development of larger-scale societies. Such a process, however, could only make headway amidst great difficulties and would undoubtedly entail the severing of many tribal ties. Once some sort of consensus had even

emerged regarding the desirability of respecting shared ownership, certain previously unimaginable practices had to be tolerated so that communities would come to allow—for the benefit of outsiders, and in order to meet needs only partially susceptible to be identified by the traders themselves—not to mention the general population—certain goods coveted by the community, which would otherwise have been used to meet specific local needs, were exported. For example, the seafarers from the nascent Greek trading centres, who transported ceramic vessels filled with oil or wine to the Black Sea, Egypt or Sicily in exchange for grain, were certainly withdrawing from the local supply resources that were sought after by those living in the immediate vicinity, and all this for the benefit of people about whom those local populations knew almost nothing. By allowing this to happen, the members of the small group had to abandon their own frameworks in order to reorient themselves towards a new understanding of a world in which the importance of their own group was considerably diminished. As Piggott emphasises in *Ancient Europe*, ‘those who discovered new resources and those who subsequently exploited them, the traders and middlemen, the organisers of voyages and trade caravans, concessions and treaties, the concept of foreignness, as well as the different customs prevailing in various geographical areas, all contributed to the expansion of social spheres necessitated by humanity’s access to a new technological level... the Bronze Age’ (Piggott, 1965:72). And the aforementioned author, referring to the Middle Bronze Age corresponding to the second millennium, also states that ‘the existence of maritime, fluvial and terrestrial communication networks gave an international character to much of the copper craftsmanship of that period. Identical techniques and styles are found throughout Europe’ (*ibid.*, 118).

What might have been the practices that facilitated these new patterns and the emergence not only of a new way of conceiving reality, but even of a kind of ‘internationalisation’ (a term which, of course, I am using anachronistically) of styles, techniques and attitudes? They would certainly include hospitality, as well as safe passage and personal security for the stranger (see the following section). From very ancient times, the vaguely defined tribal territories had been intertwined by the commercial relations

established between individuals who ventured to adopt these new practices, which would eventually give rise to commercial contacts which, over great distances, would transmit a sort of 'micro-elements' conducive to trade. All this enabled the emergence of sedentary civilisation in new places and, consequently, of specialisation—processes that would ultimately culminate in population growth. A sort of chain reaction thus began, whereby increased population density facilitated the discovery of new opportunities for specialisation, which in turn allowed for a further expansion of the division of labour; this, in turn, drove further population growth and higher standards of living, and consequently further population growth, and so on.

Trade made population growth possible

This 'chain reaction' warrants closer examination on our part. Whilst, generally speaking, certain animals are adapted to specific 'ecological niches' that strictly limit their potential for expansion (as they cannot easily survive outside them), the human species — and a small group of animals, such as rats — has been able to adapt to almost any part of the planet. This is not a consequence of their ability to adapt at an *individual* level. Only a small number of local environments could have provided what was required for the manufacture of the tools that enabled humanity to progress from the hunter-gatherer stage to sedentary civilisation, not to mention those required for any agricultural activity. Without the support of fellow humans from other areas, the regions where most people wished to settle would have been entirely uninhabitable, or habitable only at the cost of great effort. Those relatively scarce self-sufficient niches, fiercely defended against invasion by any intruder, would surely have been the first in each geographical area that humans would have ventured to inhabit permanently. Gradually, however, it would come to the attention of these inhabitants that certain neighbouring areas were also capable of meeting almost all their needs, although they might lack a few others, because for example, items such as flint, the fibres required to make the strings for their bows, the

adhesives used to attach the handles to their instruments, the tannin used to tan hides, or other such materials. Confident that they could always return to their former homes to seek out these supplies, some would occasionally venture to leave their previous surroundings to settle in neighbouring areas, and would even venture into even more remote and sparsely populated regions, of which there was certainly no shortage in the vast continental areas where these people lived. One must not fall into the error of assessing the importance of such movements purely in quantitative terms; for, however modest their contribution to the consumption of a particular environment might have been, had they not had access to the aforementioned materials, the various populations would have had little chance of survival, not to mention the difficulties they would have faced in multiplying.

Their sporadic visits to their former homeland would not pose any particular problems as long as those who had once migrated were still recognised by those who had chosen not to leave. With the passage of time, however, their descendants would begin to be regarded as strangers by the inhabitants of the better-supplied areas, who would strive in every possible way to defend both local production and their exclusive environment. For this reason, and in order to secure the goodwill of the local population, those seeking to obtain specific goods unavailable elsewhere would not hesitate to bring with them certain gifts as a token of friendship. And to make such items more appealing to their former colleagues, they would ensure that they were not limited to satisfying basic needs—already met by local production—but were capable of meeting a more refined demand. Consequently, the items offered must generally have been 'luxury goods', though this does not imply that those received in exchange were of the same kind. Regular exchange based on the barter of gifts would probably arise amongst members of the same family, whose mutual obligations of hospitality would surely be linked to exogamous rituals. The transition from the exchange of gifts amongst people connected by family ties to the emergence of more impersonal institutions comprising intermediaries or agents who, on a regular basis, would facilitate such contacts, arranging on behalf of the parties concerned the necessary

guarantees of personal safety for the time required to acquire what they needed and to set the prices of the various items according to their relative scarcity. With these prices ranging from the minimum deemed acceptable by the seller to the maximum that would render the transaction unviable, all market values would gradually become established; and, inevitably, traditional prices would adapt to the new circumstances.

In any case, the emergence of the important figure of the *xenos*—the host-friend who guaranteed the merchant's safety in foreign territory—can already be observed in ancient Greece. Commercial exchange would initially arise on a very personal level and would only gradually gain momentum, as it would be tolerated by the warrior-leaders on the basis that these were transactions carried out on a non-profit basis. Those who already possessed some wealth would undoubtedly not only be best placed to offer hospitality to relatives from other regions, but, as these relationships became established, a wealthier class would emerge from among these social strata, situated at the nerve centres of a commercial network capable of meeting the most fundamental needs. The *foreigners* from Pylos and Sparta, to whom Telemachus turns in search of information regarding his father, the 'great traveller Odysseus' (*Odyssey*, Book III), probably belonged to this class of commercial agents, some of whom, through the accumulation of resources, went on to become kings.

Such greater opportunities for cooperation between outsiders would undoubtedly help to accelerate the abandonment of the direct solidarity characteristic of the tribe, of unanimity regarding objectives and, in general, of the collectivist approaches that so distinctly characterise small-scale primary groups. In any case, certain individuals would thus free themselves from the behavioural constraints imposed by the small community and, as a result, would succeed in establishing not only a number of new population centres, but also the foundations upon which would subsequently emerge a communications network that would allow anyone to access the economies of many other communities; a network which, with its innumerable ramifications and new centres of information dissemination, has ultimately come to span the entire planet. In short, primitive social orders

enabled certain individuals to direct their unintentional and unconscious efforts towards the establishment of a more extensive and complex order, the evolution of which at all times exceeded any possible foresight on the part of both the actors themselves and their contemporaries.

To create this order, various individuals utilised certain information available only to them personally. They certainly could not have done so had certain practices not been tolerated, such as the existence of the *xenos*, a figure who, as mentioned, served the foreign merchant. In fact, such initiatives could vary widely in terms of their objectives and be based on information of a purely personal nature, all of which undoubtedly fostered the development of private enterprise. For, in fact, only the individual—never the group—was in a position to gain access to the inner circle of the foreign community and thus be able to uncover information unknown to their fellow tribesmen. Trade could not be based—I emphasise—on collective knowledge, but exclusively on individual knowledge: only the gradual acceptance of plural ownership could have facilitated its emergence. Although the various navigators and merchants were motivated, in their endeavours, by personal gain, the prosperity, higher standard of living and population growth that soon emerged within the various groups (benefits facilitated by those innovators who devoted their efforts to trade rather than to local production) fostered the continuous emergence of a wide range of new opportunities.

To avoid any misinterpretation, I would like to remind the reader straight away that it is only of secondary importance to elucidate *why* humanity came to adopt new changes or customs. Of greater significance is the realisation that, for a custom or innovation to take root, two conditions must be met. Firstly, circumstances must exist that allow certain practices—whose usefulness no one currently perceives or values, are, in fact, respected; and, secondly, those relative advantages must materialise which enable the group in question to prevail over the others by virtue of its superior demographic capacity.

Trade predates the State

The fact that the human species has managed to cover most of the earth with the density it has achieved, and that it has been able to sustain such a large population even in geographical areas barely capable of producing the essentials for its survival, is due to the fact that humanity, like a colossal, expanding body, has been able to spread to the most remote areas and obtain from each of them the resources necessary to feed everyone. In fact, I do not think it will be long before even Antarctica is teeming with well-paid miners. An observer viewing our planet from some point in space might interpret this phenomenon—and the numerous environmental changes that accompany it—as an organic process. But that is not the case: such a grandiose expansion is merely the consequence of individual behaviour developed, not through the impulse of our instinctive inclinations, but through the adoption of the habits and patterns of behaviour that we have inherited from generation to generation. Nor do traders and their local collaborators (as was also the case with their primitive predecessors) usually know in detail the specific needs that their efforts satisfy. A large number of these needs, in fact, do not even materialise until a time so far in the future that no one is in a position to assess them today, even approximately.

The more deeply one delves into the study of the history of economic processes, the more erroneous the thesis appears that the establishment of a highly organised political power marked the beginning of civilisation. There is much exaggeration surrounding the role played by rulers in the course of history because, obviously, we have received far more information about what they did than about what coordinated individual activity actually achieved. This skewed legacy stems from the nature of the preserved remains — writings and monuments, for example — and is encapsulated in the anecdote (which I hope is apocryphal) of the archaeologist who, having observed that the oldest price lists for various goods were carved into monoliths, concluded that it was always the ruler who set them. No less preposterous, on the other hand, is the assertion in a well-known scientific essay that, since no suitable open spaces were found amongst the ruins during the Babylonian

excavations, there could not have been regular markets in that civilisation—as if, in such a hot climate, people were going to gather outdoors!

The process of expanding trade into new areas was hindered rather than facilitated by the public authorities. Those peoples who granted merchants freedom of movement and security benefited from having access to a greater wealth of information, thanks to their higher population density. However, as soon as their rulers realised their subjects' dependence on imports of certain foods and goods, they endeavoured to ensure, in some way, the arrival of these supplies. In the dawn of history, many rulers, alerted by the economic process itself to the existence of desirable resources in foreign lands, embarked on military expeditions or colonising endeavours. The Athenian political classes were neither the first nor, certainly, the last to attempt such ventures. It would be absurd to conclude, however, as certain modern authors seem inclined to do (see Polanyi, 1945, 1977), that during the historical periods of greatest prosperity and demographic expansion in Athens, commercial activity was 'administered' or regulated by the rulers through appropriate treaties, or that prices were fixed by the authorities.

It seems far more likely that, with stubborn persistence, the public authorities projected their pernicious interference into the spontaneous cultural evolution which, on many occasions, they surely even brought to a definitive halt. The Byzantine governments of the Eastern Roman Empire provide a good example (see Rostovtzeff, 1930, and Einaudi, 1948). The history of China, for its part, is replete with instances in which the organs of power have attempted to establish such a perfect organisation of society that all innovation became impossible (Needham, 1954). This country, far more advanced scientifically and technologically than Europe (where, to cite one example, as early as the 12th century there were ten oil wells in operation along a single stretch of the River Po), owed its decline—but not its earlier development—to the manipulative power of its rulers. What caused China's highly advanced civilisation to be overtaken by Europe was its rulers' insistence on controlling everything so exhaustively that any possible evolution was nipped in the bud, whilst, as noted in the final chapter, Europe

probably owes its extraordinary expansion in the Middle Ages to the political anarchy of that era (Baechler, 1975:77).

The blindness of the philosophers

Perhaps the extent to which the government's deliberate policy had little influence on the emergence of commercial centres—particularly in Athens and later in Corinth—and the extent to which the true source of their prosperity was misunderstood, can best be illustrated by Aristotle's complete failure to grasp the advanced market order in which he lived. Although he is sometimes cited as the first of the economists, what Aristotle understood by *oikonomia* was, in reality, an attempt to 'guide the productive activity of a household or, at most, a small business or farm'. He had nothing but contempt for the greedy endeavours of the market, the study of which he termed *chrematistics*. Even though the very survival of his Athenian contemporaries depended on grain imported from afar, the ideal order for him remained *autarkos*, that is to say, self-sufficient. And although this philosopher has also been regarded as a biologist, two basic concepts relating to the formation of complex structures were alien to him, namely, evolution and the self-organisation of order. As Ernst Mayr (1982:306) has stated, 'the idea that the universe might have had complete chaos as its starting point, or the assumption that complex organisms might be the result of an evolution beginning with simpler ones, in no way form part of Aristotelian thought'. In other words, Aristotle never considered the possibility of resorting to evolutionary explanations. He seems to have been unable to interpret 'nature' (or *physis*) as a process of growth (see Appendix A), and was equally unfamiliar with certain distinctions regarding orders that had already been established by the pre-Socratic thinkers, such as those distinguishing between a spontaneously formed *kosmos* and a deliberately established order (for example, an army)—a type of order that earlier philosophers had termed *taxis* (see Hayek, 1939:37). For Aristotle, every order of human activities is *taxis*, that is to say, the result of the deliberate organisation of individual action by an ordering mind. As we have already seen (Chapter I),

Aristotle expressly stated that order could only exist in spaces small enough for everyone to hear the herald's voice—spaces which, as a rule, were easily controllable (*eusynoptos*, *Politeia*: 1326b and 1327a). 'A group that is excessively large cannot participate in order' (1326a).

For Aristotle, only the known needs of the existing population gave meaning to productive endeavour. He interpreted humanity, and even nature, as if they had always existed in their present form. This static conception was incompatible with any evolutionary approach, which prevented Aristotle from even considering the problem of the formation of existing institutions. It seems he never considered that many of the communities of his time—and certainly the majority of his fellow Athenians—would never even have come into existence had their ancestors confined themselves to meeting only their known and present needs. Nor did he suspect anything about the experimental processes of adaptation to unforeseen changes through the adoption of abstract norms which, if successful, allow for an increase in their number and the formation of stable patterns of behaviour. In this way, Aristotle introduced ethical principles incapable of recognising the usefulness of those frameworks which, passed down from generation to generation, are gradually perfected; principles which render analysis from an economic perspective futile, since, from the outset, they deny the existence of that set of problems that can only be addressed by accepting general norms.

Since, in his view, only behaviour aimed at *providing some benefit to others* is ethically acceptable, the Aristotelian perspective did not hesitate to reject any behaviour that benefited only the actor themselves. However, proclaiming that commercial matters should be regarded as contrary to ethics in no way prevented the very existence of the community in which Aristotle lived from depending, in the long term, on the proper functioning of a set of markets that continuously supplied it with everything it needed. For, long before Aristotle, profit-driven production—which he considered 'not in accordance with nature'—had already become the foundation of a vast order capable of extending beyond the scope of known needs.

As is well known, at the social level, profit acts as a guiding principle that ensures productive effort takes place in the ways that best serve everyone's interests; only by producing what is economically most profitable is it generally possible to feed the greatest number of people, since in such a scenario a smaller volume of resources is employed than that which is contributed to the community through production—a phenomenon already noted by some Greeks prior to Aristotle. In fact, in the 5th century, that is to say, in a period preceding Aristotle, the West's first historian began his account of the Peloponnesian Wars by reflecting on how primitive peoples, 'without trade, without freedom of communication by sea or land, deriving from the cultivation of their land only the minimum required for their survival, were incapable of transcending a nomadic existence'. Consequently, he continued, 'they were also incapable of building great cities or of leaving any other evidence of their greatness' (Thucydides, I,1,2). Aristotle, however, ignored such insights.

If the Athenians had followed Aristotle's advice —based on a complete ignorance of economics and evolution—his city would soon have become a mere village, for the Aristotelian conception entailed the adoption of an ethical framework compatible only with a stationary community. His doctrines, however, came to dominate all philosophical and religious thought of the following two millennia, even though, despite this, a model of society characterised by great capacity for expansion and dynamism eventually took root in the Western world.

The effects of Aristotle's systematisation of an ethics of the micro-order were reinforced by the influence that this philosopher exerted on Saint Thomas Aquinas in the 13th century, which led, later on, to this line of thought effectively becoming the official doctrine of the Church. The hostility towards the practice of trade, which has prevailed both in the Church of that time and in the Church of today, its condemnation of the charging of interest — which was once equated with usury —, its defence of a fair price and its dismissive treatment of profit are ideas steeped in Aristotelian thought.

However, throughout the eighteenth century, Aristotle's influence was already beginning to wane. David Hume observed that

the market allows 'without the influence of any altruistic motivation, people to be induced to satisfy the desires of others' (D. Hume, 1739/1886: II, 289). He also noted that this occurred without the various actors even needing to know one another; that it was possible 'to promote the general interest without the actor himself intending to do so' (1739/1886: II, 296), and, in short, that all this occurred by virtue of the existence of an order 'which ensures the defence of the general interest even in the event that the actors are motivated by malevolence'. On the basis of these insightful observations, the idea emerged of organising society through self-organising structures, thereby laying the foundations for a more adequate understanding of those complex orders whose functioning had hitherto been attributed to the intervention of some superhuman version of what we call the mind. Gradually, it became apparent that the market order allows, within obvious limits, the use of personal knowledge to achieve one's own objectives, without anyone needing to be aware of most of the details of the order within which their own activity takes place.

Yet, despite all this, and as if turning its back on these great intellectual advances, an animistic, naïve and elementary view of reality (Piaget, 1929:359) —once again embellished with Aristotelian overtones— emerged amongst social science scholars and has served as the foundation of socialist ideology.

THE STATE'S GENERATION OF SOCIAL VIOLENCE*

SYDNEY D'AGVILO

"The historical cause of all violence:
the very existence of the state."

MIJAIL A. BAKUNIN
The Paris Commune and the State

"Organised violence is inseparable from
government: it is government."

LEO TOLSTOY
Against those who govern us

"The great difference between humans today
and the way they originally were is that the
Mutants [state-controlled men] have a source of
fear. The Authentic Ones [non-state-controlled
men] have no fear. The Mutants threaten their
children. They need police and prisons.
Furthermore, the government's security is
based on the threat of arms against other
countries. For the tribe, fear is an emotion from
the animal kingdom, where it plays an impor-
tant role in survival. But if humans know the
Divine Unity and understand that the Universe
is not a random occurrence but a plan in
progress, they have nothing to fear. Either you
have faith or you have fear, but you cannot
have both at the same time."

MARLO MORGAN
Voices of the Desert

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To speak of the state and of state coercion is to speak of the same thing, because all state actions are coercive. It is inconceivable that such a monster could be defended by anyone with even a modicum of conscience. The purported need for coercion to maintain social order is an absurdity, because *coercion and order are mutually exclusive*. We can have order or coercion, but not both. Hobbes's *Leviathan* is, how shall I put it, a nauseating pamphlet propaganda, devoid of any foundation, in which its unsubstantiated and biased author has shamelessly distorted historical facts. This fantastical fairground charlatan concocted the notion that primitive man lived in a state of perpetual violence, and from there, statist have continued to perpetuate the false myth of the violent and barbaric savage. The truth is completely different and even the opposite:

It is the state that creates and generates violence. Where there is no state or political authority, all societies are peaceful.

This has long been known to anthropologists (with the exception of collectivist 'anthropologists', who practise not science but false magic, and who seek not the truth but arguments of any kind in favour of the supposed necessity of the state's existence), yet it continues to be ignored by historians, economists and, of course, by politicians, since that simple fact would be enough to put an end to the political profession and the state system:

'When rulers are installed, tyranny arises; when officials are appointed, thieves are born. You idly enact rites and laws to bind the lowly common people.' (Ruan Ji, *The Biography of Master Great Man*).

"As soon as the relationship between lord and subject is established, hearts become daily more filled with evil designs, until the shackled criminals sullenly performing forced labour in the mud and dust are full of mutinous thoughts, the sovereign trembles with anxious fear in his ancestral temple, and the people simmer with revolt amidst their poverty and distress; and to try to stop them from revolting by means of rules and regulations, or to control them by means of penalties and punishments, is

like trying to dam a river in full flood with a handful of earth, or holding back torrents of water with a single finger." (Bao Jingyan).

"André Berthelot observes in the entry 'état' in *La Grande Encyclopédie*: 'In Central Africa, Baker was greatly struck by the contrast between the Unyoro, subjected to a ferocious despotism in which people are killed and tortured for the most trivial reasons, and the neighbouring countries, where the tribes have no chiefs. On the one hand, flourishing agriculture, industry and even architecture, a well-dressed and well-fed people; on the other, bands of naked savages, exposed to the torments of hunger.'" (Bertrand de Jouvenel, *On Power: A Natural History of Its Growth*).

This is entirely logical because, in the absence of legislation, Natural Law prevails—which is the most orderly and peaceful system in existence, and the one that most effectively discourages the use of violence. Therefore, contrary to what is trumpeted with great fanfare by statists of every stripe, both theoretical logic and historical truth demonstrate beyond any shadow of a doubt that the emergence of social violence is a phenomenon that arises only when there is a state or a political authority. Obviously, exposing this ideological lie of the cunning statist imagination may prove critical and even fatal to the interests of the state regime, as the majority of citizens, thoroughly deceived by the debased oligopoly of state-controlled media dedicated to disinformation and manipulation, resign themselves to accepting the existence of the organised state precisely because of the false belief that, without political authority, crime and violence would ravage civilisation, when the truth is exactly the opposite.

Natural Law, by its very nature, is something that is deeply engraved in the hearts and minds of all men; it is therefore accepted voluntarily and need not be imposed by force. On the contrary, for legislation—which is, by definition, arbitrary and perverse—to be accepted by the population, it is necessary to resort to all manner of threats and to exercise considerable coercive power. The fact that legislation has to be brutally imposed through violence (since otherwise no one would accept it, as it is *contrary to nature*) is more than sufficient proof to repudiate and condemn all legislation,

which is nothing but a brazen attempt at state subversion against the eternal, universal and immutable Natural Law, which does nothing but destroy social ethics and breed immorality and crime:

“The more importance is attached to laws and regulations, the more thieves there will be.” (Lao Tzu).

The psychological difference between Natural Law and legislation

“God has given us a principle of universal reason, just as he has given feathers to birds and fur to bears; and that principle is so constant that it endures in spite of all the passions that oppose it, in spite of the tyrants who wish to drown it in blood, in spite of the impostors who wish to annihilate it through superstition.”

VOLTAIRE

Essai sur les mœurs

The psychological difference between Natural Law and legislation is enormous. Every person accepts Natural Law because it is imprinted in their genes, in their cells, in each and every molecule of the Universe. Not only do they accept it willingly, but they know—if they are even remotely intelligent—that it is the best course of action for any person and for any living being, and that their happiness will be greater the closer they come to Natural Law and the more in harmony they are with the laws of Nature. Any deviation from Natural Law is a wilful folly for which whoever has behaved in this way will have to pay dearly and at their own expense.

On the contrary, people submit reluctantly to arbitrary and ever-changing laws, not out of ethical conviction but because they have no other choice, given the terrible threats and punishments that the state or the mafia promises to those who transgress their coercive decrees. How can a person respect legislation when they know who drafted and enacted it, what obscure and unspeakable interests it serves, and by what sort of rabble it was concocted? None other than a gang of criminals who, were it not for the

staunch protection of their servile security forces—those ‘exemplary’ civil servants or uniformed thugs who are armed to the teeth and who blindly obey any political order—would be lynched like fairground dummies the moment they set foot on the street, as retribution for their heinous crimes against productive citizens and against humanity in general.

Therefore, far from bringing the slightest happiness, the situation a person faces under the law is literally tragic, since, whatever they do, they will come off badly both psychologically and morally (economically, it goes without saying that they will always be left high and dry): if they comply with the law, they will be failing to uphold Natural Law and, consequently, are digging their own karmic grave through their complacent behaviour; but if they do not comply, then they will be acting in accordance with Natural Law, yet will have to endure the terrible punishments meted out by the mafia-like state, which include the ordeal of being subjected to a theatrical public trial surrounded by state henchmen, physical and psychological torture at the hands of state inspectors and executioners, not to mention the plundering of their assets (seizure) and abduction (imprisonment). From a psychological point of view, the torturing state sadistically subjects the individual to a lethal game in which they stand to lose no matter what they do.

A missed opportunity, a lowering of moral standards and incitement to crime brought about by legislation

Just as within the walls of a prison, within a state-controlled territory it is not natural ethics that prevail, but prison rules and the arbitrary will of the governor and the whims of his warders. The former are called *legislation* and the latter *acts of government* and *official discretion*, respectively. In such an anomalous and extremely irregular situation, the inmates most likely to survive will be those who behave in accordance with state rules, and not those who act ethically – behaviour which can often be, and in fact is, contrary to the law. Consequently, under an organised state, ethical individuals run a greater risk of being legally

punished than those who follow the arbitrary and corrupt, *unnatural* state norms. Conversely, those who merely comply with state regulations—even if such regulations are immoral, as is the case with large statist corporations, which, in fact, draft the regulations that politicians subsequently enact—will be in a position to reap greater benefits in an intervened and ethically numbed market than those with ethical scruples. In this way, the rules and regulations of the ‘mafiaestado’ strongly incentivise immoral behaviour on the part of individuals, since by destroying Natural Law and replacing it with legislation and regulations, the path to crime is left wide open, as the saying goes: ‘he who made the law, made the loophole’:

‘Legislation imposed by force condemns and prosecutes only a very limited range of acts, whereby acts of the same nature not included in its provisions appear to be justified.’ (Leo Tolstoy, *The Kingdom of God Is Within You*).

Indeed, Natural Law, which by definition cannot be written down, covers the entire infinite spectrum of human and non-human, terrestrial and extraterrestrial behaviour, but legislation, which must necessarily be written, can cover only a small subset of all possible behaviours and all possible cases, which are literally infinite. Consequently, anything not expressly prohibited by regulation remains dubiously permitted... until a new regulation once again narrows the scope of what is permitted. In this way, the law-making state grants impunity to its white-collar thieves who operate both in politics and in those sectors of the economy monopolised or regulated by the government—which are all, or almost all— but especially the petrochemical industries, whose appalling track record of mass poisoning of consumers and environmental pollution — both of which have occurred within a legal framework meticulously regulated by the government, which, were it any more hypocritical, would burst with shamelessness — would in themselves be enough to fill an entire encyclopaedia of state crime. Consequently, lobbyists and unscrupulous individuals do not miss an opportunity to commit crimes, with the result that criminal

enterprises and immoral individuals reap huge profits and assume a dominant position in the economy and society.

Legislation is a *carte blanche* for crime that the government grants to members of the organised state — to savagely attack productive citizens—and to its cronies in the big state-controlled corporations—to merrily exploit consumers—. Compare this institutionalised barbarism with the operation of natural ethics in a free society, and you will see that there is no possible comparison, for legislation and the intervened market breed vice and coercively inhibit virtue, whilst Natural Law and the free market are generators of virtue and natural inhibitors of vice.

The interpretation and reinterpretation of legislation in the service of state violence

Whilst Natural Law protects private property—which, being unwritten, cannot be manipulated—legislation protects the unspeakable interests of state and parastatal citizens, being open to all manner of interpretation, always in favour of those who drafted it, since the letter of the law supports everything, especially when the body called upon to adjudicate on the matter is none other than another state agency: the public justice system, armed to the teeth, which is the absolute negation, in both form and substance, of Natural Law—that eternal, universal and immutable law which is subverted and brazenly supplanted by the will of the government of the day, expressed in the form of an arbitrary decree.

This morally questionable practice was initiated by the very same state apparatuses, which have been gradually altering and distorting the meaning of various constitutions and fundamental charters—whose original intention was precisely to limit the powers of the government—in order to further increase their control and domination over productive citizens, who, whilst initially already serfs of the state, have, following successive amendments and modifications to the constitution in force, become mere destitute slaves whom a rapacious, criminal state has stripped of all dignity and any right to property.

"Our social organisation is not based on legal principles, as people who benefit from the advantageous position afforded them by the current state of affairs like to think, but on the simplest and crudest violence, on murder and on torture." (Leo Tolstoy, *The Kingdom of God Is Within You*).

In essence, everything that regulation prohibits is directed against productive citizens, whilst everything it permits is designed to grant impunity to state officials and to the stale, self-serving political-business consortium of large statist corporations, to whom the government grants licence to abuse consumers as they please (which, to top it all, has the incredible hypocrisy and audacity to claim it is 'protecting' the consumer through its iniquitous legal machinations in favour of the statist cartel and against small producers). The aim of all legislation is nothing other than to humiliate, torture and enslave productive citizens whilst, at the same time, decriminalising the looting, fraud and crimes perpetrated against them by members of the state mafia – from politicians and bureaucrats to civil servants and mercenaries, from judges and bailiffs to the police and the military.

The state-imposed obligation on productive citizens to commit crimes and to inflict violence upon themselves

Moreover, on more than a few occasions the government compels productive citizens to behave immorally and to commit crimes decriminalised by legislation, such as when companies are forced under duress to withhold a portion of their employees' wages, whether under the pretext of social security contributions or under the pretext of withholding income tax from individuals or legal entities, in order to add it to the spoils—guarded by politicians and bureaucrats—or to collect VAT and other taxes on purchases made by consumers, and to pay this money—obtained criminally according to Natural Law—into the filthy, murky coffers of the 'mafia-state', where the spoils,

vilely stolen through intimidation of productive citizens, are stored until they are distributed.

Not only does coercive and legalised theft carried out in the interests of and on behalf of the organised state increase social violence, but all the obligations it imposes on its subjects are, to a greater or lesser extent, criminogenic: *compulsory state education*, which distorts and hypnotises the human mind to turn children and young people into future criminals or henchmen in the service of the state; *compulsory state healthcare*, with its coercive vaccinations and chemical therapies that have killed more people than all epidemics combined, with its absurd protocols — which state doctors are obliged to follow — to ensure the commission of the healthcare crime and the consequent profit for statist laboratories, the brutal persecution of independent laboratories and of natural and alternative therapies, etc.; *compulsory state currency*, which is legal tender, that every state slave is obliged to use, since if there were monetary freedom, central banks could not blithely commit the hyper-crime of mass currency counterfeiting, causing, through such state-induced inflation, the loss of the currency's purchasing power and the damaging economic cycles of booms and crises; in short, any *obligation* that the organised state imposes on enslaved productive citizens cannot be moral — for if it were, it would not be necessary to impose it — and therefore increases, directly or indirectly, social violence.

“All the duties imposed by a state are contrary to a Christian's conscience: the oath of obedience, taxes, the courts, and the army. And it is on these duties that the entire power of a state is based.” (Leo Tolstoy, *The Kingdom of God Is Within You*).

Moreover, the very fact that it is a *coercive* imposition makes it inherently criminogenic, regardless of the specific effects it will have on the economy and society, for all coercion is in itself a crime and increases social violence, all the more so because of its mass nature.

Increase in social violence through imitation

A citizen living in a democracy is forced to witness, almost every day, the far from edifying spectacle of political corruption, which goes largely unpunished. In fact, the scandals that come to light are only those in which the political parties have failed to agree to share the spoils in a concerted manner, but rather where one political party has sought to keep the entire cut for itself, excluding the others. This tends to go down very badly with the mafia, and so, when a political party discovers it has been excluded from a corrupt operation – and they all are – it rushes to claim its share under the threat of ‘spilling the beans’; and if its demand is not met, it will pass on information about the fraud to a sympathetic media outlet so that it can expose the corruption and damage the other party’s image. The corruption scandals that come to light are merely the tip of the tip of the tip of the iceberg, with the vast majority of cases remaining unknown to the public.

On the other hand, the television channels and the servile, statist media are the government’s cheerleaders, a gang of journalists on the payroll who applaud with ears pricked at anything to do with statism and who shamelessly and excessively glorify politicians, treating them as if they were the heroes of the world, the demiurges upon whom the very existence of the planet depends—a fact inferred, first and foremost, simply from the quantity and quality of the news programmes that devote *prime-time slots* daily to their lives, works and miracles. Given that political activity is practically indistinguishable from that of the mafia, the media’s glorification creates a strong incentive for individuals to emulate the immoral behaviour of politicians, since they see that it is publicly rewarded and praised by the statist media oligopoly — which are the only ones to whom the government has granted a licence (that is, permission from the mafia) to broadcast.

“Turn your gaze next to the labyrinth of the law and to the iniquity conceived in its intricate recesses. Consider the atrocities committed in the very heart of every republic out of ambition, envy, fraud, open injustice and so-called friendship; vices which might find

little support in the state of nature, but which germinate and flourish in the exuberance of political society." (Edmund Burke, *A Vindication of Natural Society*).

Likewise, the mimicry of violence is transmitted in everything the government does, since everything about it is coercion, violence or manipulation—in short, unethical behaviour duly decriminalised by legislation, which citizens learn to accept socially and to emulate in their own conduct.

"The growing needs that torment us have altered the character of our customs. Bad faith and greed have arisen amongst us because the need to live is often stronger than virtue. But who has set us the example of greed? Who has extinguished in our hearts that fund of candour which united us in perfect harmony? Who has made our misfortune the father of our vices? Many of our fellow citizens have refused to bring children into the world whom hunger would snatch from their cradles. Others, in their despair, have blasphemed against Providence. Who are the true perpetrators of these crimes?" (Louis-Sébastien Mercier, *The Year 2440*, "The Man of Iron").

The incitement to violence spreads to all spheres of social and economic life, corrupting the behaviour of society and the customs and traditions of the people. This rise in violence necessitates greater coercive force to maintain social 'order', which under a state regime is by no means order at all, but rather a pressure cooker on the verge of exploding that must be suppressed with ever-increasing energy and brutality. The disproportionate expansion of police and military forces — always under political command — is, therefore, another of the characteristic flaws of the distorted state system. A state-controlled society is a society that is judicialised, policed, militarised and, of course, politicised.

In turn, the increase in police and judicial repression contributes significantly to a general rise in violence, thereby creating a direct feedback loop that generates ever-increasing violence, with no authority capable of halting this spiralling escalation of violence—deliberately created by the state system so that it can cunningly offer a manipulated and deceived population the 'protection' of the state-mafia in exchange for allowing itself to be robbed and

extorted without putting up a fight – which is *exactly* what any kind of mafia, legal or illegal, does.

The criminogenic effect of the prison system

“The actions of governments, with their cruel methods of punishment... contribute more to an increase than to a decrease in the number of offenders.”

LEO TOLSTOY

The kingdom of God is within you

To all this, which is already deplorable in itself, we must add the violence-inducing effect of the prison system, which is one of the cruellest and most heartless atrocities conceivable in the cosmos, one of the reasons that make us feel a profound sense of shame for the human race.

Various studies show that prisons, far from serving their supposed purpose of social reintegration, are veritable ‘Universities of Crime’, where convicts enter as apprentices to crime and emerge with a master’s degree in committing offences. Consequently, these unrecognised public universities are one of the factors that contribute most to the rise in crime and violence in society; this is well known to the prison authorities, who continue to fanatically pour fuel on this fire of degradation in order to further curtail individual freedoms and turn everyone living in society into a Total Big Brother, under surveillance 24 hours a day, 365 days a year. To this end, they need to torment the population by fanning the flames of violence so that people live in terror, gripped by fear and anguish, and resign themselves to enduring their wretched existence like a tortured chicken chained to a conveyor belt on a farm, ready to be slaughtered at any moment for the public good.

“A free man is one capable of non-interference in the affairs of his neighbour, whilst the legally conscious man is consumed with a desire to control or dominate his neighbour. When a man says ‘there ought to be a law’, he confesses his incapacity for freedom.” (Frank Chodorov, *Fugitive Essays*).

The destruction of Natural Law by legislation causes man—who is by nature an ethical being—to undergo a psychological mutation and become an amoral and depraved being, who, disoriented like a drugged hake and lacking spiritual guidance or reference, seeks the futile refuge of legislation within the varicose and corrupt bosom of the state.

These are the mental bastards who clamour for more legislation and demand that the government impose further regulations whenever someone—who affects or influences them in no way whatsoever—commits a supposedly criminal act a thousand kilometres away, which in a free society is in no way a matter of public interest, since it is a strictly private matter that will be resolved in the same way and, where appropriate, with the assistance of an equally private justice service. Unable to conduct their own lives ethically, they devote themselves to trying to direct the lives of others; incapable of managing their own private property, they set about trying to manage that of others. Lacking ethics, he sets about calling for the creation of a new code of ethics and imposing it on others: he becomes an ethical aggressor and will end up attacking the private property of others with impunity through the application of state legislation. Terrified by freedom and incapable of taking responsibility for his voluntary actions, he will demand that the punitive state regulate everything so as to shirk all responsibility and any possibility of freedom, ultimately transforming himself into an immoral robot, remotely controlled by legislation, in the ill-fated service of the state.

The illegitimacy of state coercion under any circumstances

"I said, amongst other things, that any power is an act of violence against man and that a day will come when neither the power of the Caesars nor any other will exist. Man will form part of the realm of truth and justice, where no power is necessary."

MIKHAIL BULGAKOV
The Master and Margarita

All coercion is immoral and unacceptable. The astute reader may retort, however, that justice needs to enforce its judgements through *coercion* in order for them to be carried out. Well, this is completely false. The idea of a coercive, armed, punitive justice system is yet another of the false myths of statism. Firstly, in a free society governed by Natural Law, the number of crimes would be less than 0.01 per cent of those committed in a statist society. Secondly, under Natural Law, the judges of the court hand down—always unanimously—the verdict, but not the punishment, since there is no *punishment* in Natural Law, only *redress* for the harm caused to the victim; judges cannot impose any punishment whatsoever, let alone sadistic fines devoid of any basis which serve only to swell the coffers of a mafia-like state that profits financially even from disputes—a practice of boundless deceit—and which provide no redress whatsoever to the victim; the judges rule and grant the victim the full freedom to choose the reparation, which may not exceed the harm caused; the victim may, if they so choose, refrain from seeking reparation, in which case the judges transfer that power to the aggressor themselves, who, thus humiliated, must freely choose the reparation they are to provide to satisfy the victim.

The state justice system, with its chilling, militarised courts, relies on violence and the backing of the armed police to impose its unpredictable sentences because it lacks any ethical legitimacy. The only way to impose an arbitrary rule that is always contrary to Natural Law is through force. Public justice is a hellish and unpredictable lottery where everything depends on the lawyer, the prosecutor and the judge one happens to be assigned. By contrast, private justice is entirely predictable, which is why the number of lawsuits would fall to a minimum in a free society. Private justice, grounded in Natural Law, possesses the unrivalled authority of natural ethics, logic and reason; consequently, it requires no shameful recourse to armed protection to defend itself against its dubious or unjust judgements, nor to enforce them upon its defendants. *A judge under state law metes out violence; a judge under Natural Law metes out ethics.* The defendant in an armed state court of justice accepts the judgement *against his will, compelled by the force of arms*; the defendant in an unarmed court of natural justice accepts

the judgement *voluntarily, convinced by the influence of ethics*, which the judge has demonstrated through the strict and relentless application of the logic of private property. Having turned the administration of justice into a game of Russian roulette inflicts such a moral degradation upon social and economic life that it is a transgression for which the organised state can never be forgiven.

Let us also note that the very use of force and violence—which is absolutely essential in the devious and unpredictable state justice system, always contrary to Natural Law—is something that is fundamentally at odds with natural ethics, whose judgements are imposed through persuasion derived from logic and reason, through respect for the truth, and through the insurmountable authority of natural laws. What a shameful spectacle it is to see a 'court of justice' armed to the teeth, backed by a violent police force serving not ethics but the politicians of a mafia or organised state! *The force of natural justice is the same as that of a physical equation: the authority of truth*; the force of state 'justice' lies in the arbitrary and disproportionate use of violence, in the firepower of a mercenary gang of servile and mindless henchmen, in the unbridled cruelty of a terrorist and criminal state that violates the most basic precepts of law and every notion of humanity.

In a state-controlled society—and consequently, one without ethics—coercion is present in almost all human affairs. By contrast, in a free society—and therefore one with ethics—coercion is an anomaly that should rarely be employed, because citizens possess ethics and it is very rare that force must be resorted to in order to safeguard justice. The ethical difference between a state-controlled society and a free society is like night and day.

As ever, the crude, half-baked eulogists and apologists for the organised state take care to misinform the public by peddling false myths and 'sensible' harangues about the utopian nature of applying natural law, falsely claiming that it is unworkable. Well then, not only is it achievable, but it has already been achieved in various places, as several authors tell us; it seems appropriate to cite some of these cases by way of illustration, in view of the strict censorship of information to which the state regime subjects the public regarding natural ethics and all matters pertaining to the natural laws that constitute the Natural Order—which is the only

order that exists and can exist, since to call the repressive and punitive system that prevails under an armed state an 'order' is nothing but pure sarcasm.

And so, we conclude this section with a few references that speak for themselves:

The Bible, Judges 17:6:

'In those days there was no king in Israel; everyone did as they pleased.'

And everything was better than before. And better than afterwards, too.

DEMOCRITUS, 720, in Tzetzes, *Scholium on Hesiod*:

"The people of that time... had neither kings nor magistrates nor masters, and knew nothing of armies, violence or theft, knowing only mutual affection and leading a free life devoid of all that is superfluous."

DEMOCRITUS, *fragments*, 872:

"It is not out of fear but out of duty that one must refrain from wicked deeds."

Lao Tzu:

"The wise man says: 'I take no action, and yet people transform themselves; I encourage contemplation, and people correct themselves; I take no action, and people enrich themselves.'"

PUBLIUS OVIDIUS NASO, *Metamorphoses*, I, 89–110:

"The Golden Age was the first to be created, an age which, without authority or law, of its own accord, cultivated loyalty and goodness. There was neither punishment nor fear; no threatening words were inscribed on bronze [the Twelve Tables of Rome, engraved on bronze], nor did pleading crowds scrutinise the faces of their judges with trembling; rather, without authorities, they lived in safety. [...]

Cities were not yet surrounded by steep moats; there were no straight trumpets nor curved bronze horns, nor helmets, nor

swords; with no need for soldiers, the people lived their lives in peace and amidst gentle tranquillity. The earth itself, from which nothing was demanded, untouched by the hoe nor torn apart by any plough, gave everything of its own accord."

Of course, ethics reigned in the Golden Age *because there was no authority and because there was no legislation*. Thanks to the absence of authority and legislation, peace, harmony and prosperity reigned, for in the presence of authority or legislation it is absolutely impossible for a free society to exist—which is the natural state of human beings or of any intelligent being living in accordance with the *natural laws* of the Universe.

PHILOSTRATUS, *Life of Apollonius of Tyana*, VII, 19:

"...and to go to peoples more beloved by the gods than those here, amongst whom there are neither complaints nor accusations of any kind, for by the very fact that they neither commit nor suffer injustice, they have no need of courts."

DIODORUS OF SICILY, *Historical Library*, V, 14:

"The inhabitants of Corsica live on milk, honey and meat, products which their island provides in abundance; and in their dealings they behave with moderation and justice, in a manner that surpasses almost all other barbarians. The honeycombs, for example, found in the trees of the mountainous region belong to the first person to find them, without anyone disputing this; their livestock are distinguished by marks, and although no one tends them, they are not stolen from their owners; and in every aspect of their lives, it is admirable how they choose to act in accordance with justice."

RUAN JI, *The Biography of Master Great Man*:

"In the past... each followed their fate and conducted themselves with moderation. The wise did not prevail because of their knowledge; the ignorant were not overcome because of their stupidity; the weak were not cowed by oppression, nor did the strong prevail by their force. For then there was no ruler, and all beings were at peace; no officials, and all affairs were well ordered. Men preserved their lives and cultivated their natures, never straying from

the norm. It was only because of this that they were able to live to a great age..."

BAO JINGYAN: 'On the Uselessness of Princes' in Jean Levi (ed.), *In Praise of Anarchy*:

"In ancient times there were neither rulers nor subjects. People dug a little and drank from it; they tilled the fields and ate of their produce; at daybreak they worked and at nightfall they rested. They were content with what they had. There were no disputes or rivalries, no honours or insults. [...]

In the days when symbolic punishments were in force, no one broke the law; but as soon as rules and edicts multiplied, bandits and ruffians proliferated. [...]

The cause of all these evils lies in the existence of rulers..."

THOMAS AQUINAS, *Summa Theologica*, I, q.103, a.1:

"It seems that the world is governed by no one.

[*Videtur quod mundus non gubernetur ab aliquo*].

1. To be governed pertains solely to things that move or act towards an end. But natural things, which constitute a large part of the universe, neither move nor act towards an end, since they do not know it. Therefore, the world is not governed.
2. It is precisely those things that tend towards something that are governed. But the world does not seem to move towards anything; rather, it remains stable in itself.
3. That which is determined to a particular state by an intrinsic necessity has no need of an external ruler. Now, the principal parts of the world are, as it were, necessarily determined to a particular state in their actions and movements. Therefore, the world has no need to be governed.

We see, in fact, that in natural things what is best always, or at least most often, comes to pass."

WILLIAM GODWIN, *An Enquiry Concerning Political Justice*:

"But in truth, no great evils will arise, for where the rule of reason is universally accepted, the offender will either yield to the exhortations of authority or, if he refuses to do so, will feel so

uncomfortable under the unequivocal disapproval and watchful scrutiny of public opinion that, even without suffering any physical discomfort, he will prefer to move to a regime more in keeping with his errors.

The reader has probably already anticipated the final conclusion that follows from the preceding considerations. If the courts were to cease passing judgement and confine themselves to making suggestions; if force were gradually eliminated and reason alone were to prevail, might we not one day find that juries themselves and other public institutions could be dispensed with as unnecessary? Would not the reasoning of a sensible man be as convincing as that of a dozen? Would not a citizen's ability to advise his neighbours be sufficient grounds for recognition, without the formality of an election being required? Are there, indeed, so many vices to correct and so much obstinacy to overcome?

Behold the most splendid stage of human progress. With what delight must every well-informed friend of humanity look forward to the glorious moment that marks the dissolution of political government, the end of that barbarous instrument of depravity, whose infinite evils, inherent in its very essence, can only be eliminated through its complete destruction!"

HERBERT SPENCER, *Man versus the State*:

"In small, undeveloped societies, where complete peace has reigned for centuries, there is nothing resembling what we call government; in them there is no coercive organisation, but at most some honorary supremacy. In these exceptional communities, which are non-aggressive and which, for special reasons, are free from all aggression, deviations from the fundamental virtues—truthfulness, honesty, justice and generosity—are so rare that it suffices for public opinion to make itself known from time to time in assemblies of elders convened at regular intervals. [...]

Let us accept as true Hobbes's postulate: 'As long as men do not live under a common power that keeps them in fear, they are in that state which is called war of one against another', which is not true, because there are stateless societies where, 'without a common power to keep individuals in fear', there reigns a deeper peace and greater harmony than in societies where such a power exists. [...]

Were men really so depraved in Hobbes's time as to justify the hypothesis that they would not abide by what had been agreed without the imposition of a coercive power and the fear of imminent punishment?"

ALBERT JAY NOCK, *Our Enemy, the State*:

"Jefferson, for example, noted that the tribes of hunter-gatherer Indians with whom he had to negotiate a fair deal in his early days had a fairly organised and admirable social order, yet were 'without government'. On this point, he wrote to Madison that 'it is a question not clear in my mind whether that condition is not the best', but he suspected that it was 'inconsistent with a large population'. Schoolcraft observes that the Chippewas, although they lived in a fairly organised social order, had no 'regular' government. Herbert Spencer, speaking of the Bechuanas, Araucanians and Koranna Hottentots, says that they have no 'definitive' government; whilst Parkman, in his introduction to *Pontiac's Conspiracy*, documents the same phenomenon."

LEO TOLSTOY, *Against Those Who Govern Us*:

"Why suppose that there can be no court without violence? There have always been, and still are, courts that command the trust of the litigants without resorting to coercion or violence.

We are so corrupted by this very long period of slavery that we cannot conceive of men governing themselves without a government. Yet this does in fact happen every day. Russian peasants who emigrate and settle in remote regions where the government cannot interfere in their affairs organise the administration, the judiciary and the police of their communities themselves; these communities flourish until government intervention and its violent methods intervene."

BERTRAND DE JOUVENEL, *On Power: A Natural History of Its Growth*:

"This explains the unique nature of the sanctions in force in very primitive societies, such as in Greenland. At the regular public assemblies, which constitute the sole governing body of these Inuit, any violator of public order is denounced and tormented by the 'jokers', who leap about him chanting mocking songs. This public humiliation—which is strikingly reminiscent of the custom, still practised in childhood societies of 'pointing the finger',

to make the guilty party flee, in despair, to the mountains, where they remain in hiding until they have 'come to terms with their shame'. Furthermore, if the crime has deeply offended social sensibilities, the only possible punishment is permanent expulsion from the tribe, as is the case amongst the Inuit and the Bedouins, and as we can also see in the accounts of the Bible. [...]

Summer Maine [*Dissertations on Early Law and Custom*] has observed that the sacred texts of India, in their earliest versions, do not provide for any punishment administered by the state, but rather recommend that the guilty party punish themselves—for example, by throwing themselves three times into the fire, or by allowing themselves to be beaten by their enemies—in order thereby to escape a more dreadful punishment from God."

LEO TOLSTOY, *The Law of Violence and the Law of Love*:

"Quite apart from the utter injustice of applying the outdated law of retaliation in certain cases of violence, whilst the most terrible and cruel abuses perpetrated by the state in the name of the superstition of a future society go unpunished, the application of crude retaliation for acts of violence committed by so-called bandits and thieves lacks all reason and has consequences directly opposed to those sought, since it destroys that powerful force of public opinion which, a hundred times more than prisons and gallows, safeguards men from all reciprocal violence."

SÁNDOR MÁRAI, *Earth, Earth!*:

"After the period of euphoric anarchy following the siege of the capital, the time had come for the harsh, grim reality of everyday life. The fact is that in the period immediately following the siege, when neither the state nor its administration existed, people managed quite well – strange as it may seem – by relying on a personal, individual order. There was no system of any kind, but there was a personal order that worked. Everyone simply did what they wanted and were able to do."

VICTORIA ANCAP, *The Origin of the Mind: The State, Its History and Evolution from a Psychological Perspective*:

"Under a slightly more established Natural Order, all these disputes are settled without the need for verbal argument, as as they are telepathically perceived by all members of the council, and

whoever is experiencing a dip in consciousness perceives the rejection that their unconscious stance causes in the souls of the other members. This leads them to re-examine and reconsider their stance, or, if they consider that all the other members of the council are seriously mistaken, to instruct them to correct their error. If the Australian Aborigines are capable of doing this routinely without any effort, as Marlo Morgan tells us, it stands to reason that Western man—the ‘mutants’, as they call us—has not yet suffered such irreversible genetic degeneration as to render him incapable of behaving with a modicum of intelligence and in accordance with the Natural Order.

Those who favour coercion and dismiss the Natural Order as utopian must be reminded that the tribes of the Amazon and Australia, which have not been tainted by statist ignorance, have for centuries ‘governed themselves’ according to this system, as has been attested to, among others, by Daniel Everett in the documentary *The Amazon Code* and by Marlo Morgan in the aforementioned work *The Voices of the Desert*. Similarly, according to Dolores Cannon, this is also how things function in the celestial realms where souls go during the periods between lives. Therefore, the Natural Order is by no means utopian, and, in any case, it is at least not an unsustainable, *unnatural* aberration doomed to failure, as is the state and all the deceptive systems based on coercion or the distortion of natural laws.”

LAUDATIO IN HONOUR OF PROFESSOR JESÚS HUERTA DE SOTO*

VASILE IȘAN**

All academic institutions have the goal of keeping, transmitting and enhancing knowledge. But a traditional academic institution has an additional mission: that of acknowledging those who keep the tradition of knowledge and enrich it with a wide variety of intellectual reflection fields.

Today, our university pays homage to one of the most notorious and valuable representatives of the *Austrian School of Economics*, Professor Jesús Huerta de Soto from Rey Juan Carlos University in Madrid. The fact that the words *tradition*, *transmission* and *translation* have a common root in the Latin language may not be a simple coincidence. Their equivalents in today's society might be the acceptance, dissemination and enhancement of the gifts of knowledge that were given to us. Professor de Soto illustrates a powerful and inspiring European academic tradition by means of a prodigious activity as scholar, publicist, investigator of history's labyrinth and present economic ideas and also as teacher of many generations of students, whom he educated in the spirit of personal liberty. In its wide range of connotations, this personal liberty comprises the economic thought of the *Austrian School*, which has been considered from the very beginning as an alternative to mainstream economics. Professor Jesús Huerta de Soto's history is interesting on the one hand and challenging and full of instructive lessons on the other, placing above any social relations or alleged historical laws the human action, the liberty to exercise it and the economic thought he is representing, with the loyalty of a temple's keeper and the vocation of renovator of the valuable intellectual

* From Rey Juan Carlos University, Madrid on the occasion of the Doctor Honoris Causa Award Ceremony.

** Speech by Prof. univ. dr. Vasile IȘAN, Rector of Alexandru Ioan Cuza University of Iași, Iași, 22 October 2010.

inheritance that was passed on to him. As this kind of thinking, placed outside the neoclassic — Keynesian synthesis, is less known to the economic academic environment, it is necessary to make a short presentation of its rather sinuous trajectory.

The “superbia of ignorance”, manifested by today’s economic school, makes the concise reiteration of this history to be more than necessary. To a certain extent, we are still “caught” in the Wighist idea of the progress of history — today’s thought is the most advanced because all the results of the intellectual investigations and reflections have been included in the one-way (or the so-called *teleological*) evolution towards the present stage. However, many scientific and cultural theories proved this to be wrong. In the field of the history of economic thought, the argument of the non-linear progress, from an analytical and intellectual point of view, was offered by at least two great scholars: Joseph A. Schumpeter and Murray N. Rothbard. Simply put, what is new is not automatically an evolution of the economical science, just as the ideas from the past are not necessarily obsolete or rudimentary just because they had been produced in a world that lacked high technologies.

Professor Jesús Huerta de Soto is the creative protagonist of the economic thought that was initiated, some centuries ago, by the Jesuit and Dominican scholars belonging to *The School of Salamanca*. Out of all the economic ideas that they left behind, at least some of them are worth mentioning: the role of the entrepreneur in economics, the subjective nature of value, the establishment of the “just” price on the free market, the great importance that “healthy” currency has for the financial and economic stability and the beneficial effects of the free trade. During the second half of the 19th century, remarkable professors from the University of Vienna, such as Carl Menger, Eugen Böhm-Bawerck and Friedrich von Wieser recovered and developed the traditions of the scholastic thought, in addition to the ideas of the classic liberalism. Their philosophic vision and scientific methodology laid the foundations of a general economic theory, where the subjective value represents the universal category found at the basis of all economic concepts (entrepreneur and enterprise, free competition and monetary price, currency and capital, free trade of goods and services). The brilliant followers of the above mentioned professors, Ludwig

von Mises and Friedrich A. von Hayek systematized and renewed the tradition of the *Austrian School* and disseminated it across the globe, from London, New York and Chicago to Cape-Town and Tokyo. A few generations of North American economists, among whom Murray N. Rothbard and Israel Kirzner stand out, have decisively contributed to the development of the *Austrian School* as an alternative to the mainstream economics. Paradoxically, the tradition of the *Austrian* economic thought came back to its European spiritual origin by means of American channels. Still, some inspired erudite European economists, such as Pascal Salin, Jesús Huerta de Soto and Guido Hülsmann brought an extraordinary contribution to the invigoration and development of the *Austrian School of Economics*.

It is in this context that we express our admiration and gratitude for the scientific and educational contributions of Professor Jesús Huerta de Soto. His reputation as “Austrian economist” is the result of almost four decades of perseverant and coherent efforts. His passion for economy was born in his adolescent years, since he was raised and educated in a family with a two-century tradition in the private insurance sector. As he was to confess later, in an interview for the Ludwig von Mises Institute in Auburn, Alabama - USA, his intellectual journey was marked by the early discovery of the works of the Austrian economists that were translated into Spanish, especially Ludwig von Mises’s *Human Action*. During the autumn of 1973, when he was still a high school student, his father suggested him to join the weekly seminar of „Austrian Economics”, taught by the brothers Joaquin and Luis Reich Albiol, in the house of the latter.

In the foreword to the first edition of his book *Socialism, Economic Calculation and Entrepreneurship*, Professor Jesús Huerta de Soto states: „The enthusiasm and inexhaustible support offered at all times by Luis Reig along with the practice of preparing for, attending, and participating in the weekly sessions of this seminar throughout the 1970s, afforded me not only an extraordinary and invaluable intellectual experience during my formative stage as an economist, but also the conviction that the paradigm of the Austrian school alone offered an opportunity to answer the questions and remedy the weaknesses inherent in other alternative

paradigms, which, like Keynesian economics and the Chicago school, were deceptively attractive to me at first”.

* * *

Professor Jesús Huerta de Soto's education reveals a common feature, specific to “Austrian economists” — the initiation in all the great accomplishments of human knowledge, the development of the capacity to judge ideas and facts in a rigorous and argumentative manner and the availability to participate in the competition of free ideas, giving the opponents the presumption of good intellectual faith and the right to be wrong.

The professional education articulates and builds itself upon this foundation of mind cultivation, development of criticism and intellectual style — which could also be seen as liberal education. Practicing a profession with competence and good results does not exclude a wide intellectual horizon; on the contrary, it is an essential condition to it.

Professor Jesús Huerta de Soto earned his Bachelor Degree in Economic and Entrepreneurial Sciences from the Complutense University of Madrid in November 1978 and his PhD Degree in Law from the same academic institution in September 1978. The same year he got his degree in actuarial science from the same university in Madrid. In 1980, being recommended by Friedrich von Hayek and having obtained a scholarship from the Bank of Spain, he enrolled in a graduate studies programme at Stanford University, where he earned his MBA in 1983. The period of time spent at the famous Californian university gave him the opportunity to live another profound intellectual experience — the meeting with Murray Rothbard, one of the outstanding students of Ludwig von Mises and, probably, one of the few polyvalent and erudite economists of the 20th century. While at

Stanford, he studied the „Austrian School of Economics” thoroughly, with a special emphasis on the “Austrian” theories of the capital and market process.

Back in Spain, he was awarded the „Rey Juan Carlos International Award for Economics” in 1983, for his works on private pension plans and the privatization of the Spanish social security system.

Professor Gustavo Villapalos Salas from the Complutense University acknowledged the exceptional intellectual capacity and the excellent professional training of the young „Austrian” and invited him to the Department of Political Economy and Public Entrepreneurship within the Faculty of Law. It was there that Professor de Soto started his promising academic career. In December 1984 he earned his PhD in Law from the Complutense University with the thesis „*Planes de pensiones privadas*”. Then, in 1992, earned his PhD in Economical and Entrepreneurial Sciences from the same university, defending the thesis called „*La polémica sobre el cálculo económico socialista*”.

In October 1988, he became full professor of Political Economy at the Faculty of Law, Complutense University. Starting with October 2000, he has been a full professor of the Political Economy Department within the Faculty of Social Sciences and Law, Rey Juan Carlos University.

Professor de Soto’s teaching activity is remarkable due to the quality of his courses and the demanding requirements he claims from his students (numerous and diverse readings, not only about Economy and definitely not only about “Austrian” economic thought). In the process of educating economists, Professor de Soto seems to be convinced of Wilhelm Röpke’s idea: „ you cannot learn any economics until you have learned all of economics”, just as he seems to have applied the professional Hayekian credo to his own education and academic career, according to which no one can be a good economist if s/he remains just an economist.

Professor de Soto’s teaching activity is particularly characterised by its different innovative nature; the method, structure and content of his “Introduction to Political Economy” course are inspired from the tradition of *The Austrian School of Economics* and especially from Ludwig von Mises’s remarkable work *Human Action*.

This way, the perseverant and dedicated efforts of a brilliant intellectual have managed to suggest an alternative to the dominant economic paradigm!

In order to reach this achievement, Professor de Soto did not settle for being only a custodian and guide in the museum of rare objects of human economic knowledge; on the contrary, he chose to act and think creatively.

* * *

Professor Jesús Huerta de Soto is an illustrious continuator and promoter of the *Austrian School* thought, as well as a talented a praiseworthy researcher and observer of the present social processes, to which he applies the principle of the methodological individualism and the multidisciplinary approach, obtaining extraordinary results.

What defines his entire research activity so far is the coalescence of three complementary but different levels of examining the social reality: theoretical, historical — evolutionary and ethical. Many years ago, Professor de Soto expressed his conviction that „science and ethics are simply two sides of the same coin, and a consistent order exists in the world, in which the conclusions reached in different fields, scientific, historical-evolutionary and ethical invariably tend to converge”.

Maybe this intellectual conviction is not a new one, especially if we remember the words of Rabelais, the French Renaissance representative who, during a different period of excessive scientism, said that “science without conscience is the death of the soul”. But a consistent and coherent multidisciplinary analysis to the study of the social sciences was applied by very few economists who belonged to the *Austrian School*, if we are to judge by their vision, ideas and research methods. Beside Hayek, Rothbard and Kirzner, only Professor de Soto can claim this title of spiritual noblesse. The fact that the Spanish economist is the most consistent promoter of this threefold method of analysis is particularly remarkable.

In his article „The Ethics of Capitalism”, published in *Journal of Markets&Morality* 2, no.2 (Fall 1999), pp.150-163, he pointed out, with scientific accuracy and factual evidence, that there is a strong connection between economical science (essentially preoccupied with the maximum efficiency of resource allocation) and social ethics (traditionally preoccupied with justice, revealing, in its essential form, the right of the individual who exercised the human action to appropriate its results. Professor de Soto’s need to establish the constubstantiality of the economic and juridical efficiency did not solely consist of a simple epistemological attempt or a methodological experiment, but of a much more profound economical insight - the

founding of the “theory of liberty” or of free-market theory, not only on the basis of efficiency criteria (such as the neoclassical paradigm), which can be used for other types of economic systems, but also of ethical ones. Otherwise stated, as Professor de Soto argued, the development of the ethical groundwork of the theory of liberty, is necessary due to:

1. the „social engineering” failure, especially the consequentialist one, derived from the neoclassical paradigm of „welfare economics”;
2. the insufficiency of the “Austrian theoretical analysis” of the market process, based on the entrepreneurial capacity, for the justification of the market economy;
3. the moral necessity that should guide human action;
4. the need of institutional order, based on moral grounds, meant to help people in their aim of following what they consider to be the right and just path;

If the economic science is „value-free” (or *wert frei*, as Weber said), this does not mean that it cannot help people adopt better defined ethical positions or facilitate logical — deductive judgements. The essential idea of professor de Soto is that „efficiency and justice, far from being a trade-off, appear to be two sides of the same coin”.

We should definitely point out that the terms of efficiency and justice used here by the Spanish economist, have different meanings than those used in present-day mainstream economics: *efficiency* is defined, from a dynamic point of view, as the capacity to exert entrepreneurship freely, which leads to the creation of new aims and measures and the coordination of the free market process by voluntary cooperation; equally, *justice* does not refer to equitable redistribution of the results that have not been produced or “social justice”, but to the appropriation of the results of the free human action (or, in „Austrian Economics” terms, of the entrepreneurial creativity).

In a few words, we have tried to present the vision and epistemology of the “engaged spectator” we consider Professor Huerta de Soto to be, in the terms used by R. Aron. These two elements are to be found in all his studies and books.

The list of articles, studies, chapters in collective volumes and books published by Professor Huerta de Soto is impressive. He started his prodigious and polyvalent research and publishing activity at the beginning of the 80's. His over 200 articles and studies were published in scientific magazines from Spain (e.g. *Revista de Economía*, *Revista de Economía Aplicada*, *Revista de Economía Política*, *Procesos de Mercado*), Italy (e.g. *Il Politico: Rivista Italiana di Scienze Politiche*), Belgium (*Journal for the New Europe*), Great Britain (e.g. *Economic Affairs*), USA (e.g. *Journal of Markets & Morality*, *The Quarterly Journal of Austrian Economics*, *The Journal of Libertarian Studies*, *The Review of Austrian Economics* etc.).

Some of Professor Huerta de Soto's books were very well received by the Spanish and international academic environment and even by the economists who do not share the vision and ideas of *The Austrian School*. This explains the initial translation into English of four of his books and the subsequent translation into Arabic, Chinese, French, Italian, German, Dutch, Czech, Portuguese, Russian etc. To a certain extent, these four books represent Professor de Soto's major research directions and the fields of his scientific contributions. What follows is neither a chronological sequence, nor an order of importance of his research activities, as his activity of searching the truth about economy and society is right now in its period of full dynamism; it also promises to bring other important contributions to the competition of economic ideas and especially to the development of the economic science. Consequently, the only criterion is the sequence of the reception of his works that were translated into English, or more precisely, the impact that they had on the academic community and the publications in the field of economics. On the basis of this inappropriate, but sequential criterion, the following important directions of research stand out:

1. *Monetary, banking and economic cycles theory*. This direction is illustrated by a true "magnum opus" published in Spanish, *Dinero, Crédito Bancario y Ciclos Económicos*, in 1998. The first English edition was published in 2006, with the title *Money, Bank Credit and Economic Cycles* by Ludwig von Mises Institute Auburn-SUA.

According to the experts, this is the most comprehensive and consistent study on currency and economic cycle that was ever published by the “Austrian economists” and not only. Leaving aside the extraordinary efforts of a thorough documentation, the work presents an exhaustive theory of the causes that lead to financial instability and of what seems to be a fatality of the capitalist economy — the cyclicity or irregular recurrence of the boom and recession phases. Particularly interesting is the fact that the author does not start from abstract assumptions or hypothetical models, but from the detailed investigation of the European legal traditions and their repeated violation over the last two millennia, by means of a discretionary monetary policy and abusive banking practice. The excursion in the history of economics and in the sequence of the numerous economic ideas is completed, naturally, by the integration of the Misesian approach of currency and credit, which is rationalist or utilitarian, the Rothbardian approach of monetary policy and banking process, based on ethical criteria, and the entrepreneurial approach initiated by Kirzner.

The Keynesian macroeconomics and monetary macroeconomics are criticised from this complex multidisciplinary perspective, and Professor de Soto recommends solutions for the reform of fractionary reserve banking, which is inherently instable from a financial point of view and periodically generates the discoordination of the real economic structure and the systematic error of the entrepreneurial function.

It is very interesting to notice the fact that the explanations given for the economic crisis and cycles by the “Austrian economists” start to be more and more taken into account by the economists belonging to the dominant paradigm.

It is enough to mention here what *The Economist* stated in a number published in September 2002: „The recent business cycles in both America and Japan displayed many Austrian features”. The same magazine, which by no means serves the *Austrian School of Economics*, published the following in its edition of July 14th, 2006: „The words of Ludwig von

Mises, an Austrian economist of the early 20th century, nicely sum up the illusion: „it may sometimes be expedient for a man to heat the stove with his furniture. But he should not delude himself by believing that he has discovered a wonderful new method of heating his premises”. Obviously, these words do not confirm the validity of the economic cycle theory created by Mises, Hayek and Rothbard, and developed by Professor de Soto. But they are aspects that attest the acknowledgement, even if partial, of the “Austrian” economic theory among the mainstream economics supporters.

2. *The theory of dynamic efficiency.* In his outstanding work, *The Theory of Dynamic Efficiency*, published in 2009 in the prestigious collection *Routledge Foundations of the Market Economy* and which contains many theoretical and applied economy contributions, Professor de Soto revises the entire neoclassical paradigm, which is based on a concept borrowed from mechanical physics (the static efficiency), and develops a theory of dynamic efficiency, starting from a rigorous and detailed incursion in the history of ideas on economy and society. The main concern of economists, argues the author, should not be the allocation of given resources for given goals and the determination of the Pareto optimum in a state of general balance, but the analysis of the free market process. The entrepreneurship is creative, always acquires new practical knowledge and therefore proposes new objectives and develops new resources.

„In fact, we believe our most important goal should not be to move the system toward the production possibilities frontier (while deeming the corresponding curve „given”) but rather to systematically apply the criterion of dynamic efficiency, which focus on the capacity of the system to continually „shift” the production possibilities curve to the right” (p. 21).

In other words, dynamic efficiency means creating new goals and means through the free exert of the entrepreneurial function and the decentralized coordination of economic activities by the competing markets.

Professor de Soto synthesized and included a whole history of economic thinking in his theory of dynamic efficiency, from the classical antiquity to Douglas North's neo-institutionalism.

Nevertheless, the bases for his intellectual undertakings were the entrepreneurial theories, elaborated by many economists, from Cantillon to Kirzner and the theory of the market process, a dominant feature of the "Austrian School" economic thought:

„If we perceive the market as a dynamic process, then dynamic efficiency, understood as coordination and creativity, emerges from the behaviour of human beings, who follow certain moral laws (regarding the respect for life, private property and the fulfilment of contracts)”. (p.33);

3. *The recovery of intellectual and liberal economic thought traditions and the dissemination of the knowledge acquired by the "Austrian School of Economics"*

The work that best illustrates this direction of research is *The Austrian School, Market Order and Entrepreneurial Creativity*, published in 2010 by the Institute of Economic Affairs and Edward-Elgar Publishing.

It is a clear and persuasive synthesis of the essential principles of the "Austrian School of Economics" and distinctively profound and original thinking that could be compared only to the achievements of Mises and Rothbard, and which has been the result of its creators, continuators and predecessors.

The notion of predecessors refers to the scholars of the "School of Salamanca". Professor Jesús Huerta de Soto brings undeniable evidence to point out the contributions of the scholastic theoreticians: Diego de Cavarrubias y Leyva, Luis Saravia de la Calle, Juan de Lugo, Juan de Salos, Martín de Azpilcueta, Juan de Mariana etc. As Joseph Schumpeter, Raymond de Roover, Marjorie Grice-Hutchinson,

Friedrich Hayek and Murray Rothbard had argued before and as Professor de Soto meticulously demonstrates in an erudite way, the intellectual roots of liberalism and of the economic theory are to be found long before the "Scottish

Enlightenment" and the English empirical philosophy, in the Iberian and Mediterranean scholastic thinking.

The crucial merit of the author of this excellent work consists in counterbalancing the fundamental principles of the "Austrian School" and those of the "New classical" through a concise solid argumentation: action vs. decision, subjectivity vs. objectivity, entrepreneurial vs. homo aeconomicus, subjectivity of knowledge vs. objectivity of practical knowledge, the entrepreneurial process of market coordination vs. the general equilibrium etc.

Finally, what Mises said regarding the *Austrian School of Economics* remains its definite and essential trait: the *Austrian School* will gain notoriety thanks to its preoccupation for human action, not to the economic balance;

4. *The complete development of the theory of socialism or the final demonstration of the "theorem of the impossibility of socialism".* In his work entitled *Socialism, Economic Calculation and Entrepreneurship*, Professor de Soto irrefutably proves his great intellectual gift and his exquisite talent for historical, ethical, sociological and economic analysis.

Almost no piece of the enormous literature related to the discussions on economic efficiency and social ethics of the socialist system that has been produced for more than two centuries from Sismondi and Marx to Alec Nove, on the one hand, and from Böhm-Bawerk to Hans-Herman Hoppe, on the other hand, escaped his critical analysis, considering the three complementary levels: the theoretical, ethical and historical-evolutive level.

The argument of "the impossibility of the rational economical calculation" and the argument of "the impossibility of centralizing relevant knowledge" elaborated by Mises and Hayek in the framework of the famous debate in the 1930s together with the supporters of "the socialist economy" are replenished with the argument of the "ethical inadmissibility" of socialism. A system that relies on violence and generalized correction, prohibiting the exert of the entrepreneurial function and replacing the market coordination of human actions with the absolute exert of commandos by the centralized planning agency cannot be either

efficient (from a dynamical point of view) or just, considering the subjects' appropriation of the achievements of their creative work. Such a system fails in reaching its expected goals: more economic efficiency than in a capitalist system, the elimination of instability resulting from the so-called "market anarchy" and the absolute equality of the income distribution.

„If economic science shows that rational economic calculation is impossible in the socialist system, and, if the theoretical analysis of social ethics shows that socialism is also impossible because it contradicts human nature, then what conclusions can be drawn from a historical-interpretation study of socialist experiences up to this point?“ wonders Professor de Soto at the end of his excellent and comprehensive intellectual paper.

* * *

Professor Jesús Huerta de Soto's wide range of intellectual pre-occupations is so vast that it can be overwhelming at a first glance. Looking at things in detail, we realize that his tireless work and the spiritual energies are spent, with dynamic efficiency, in an integrating vision and a unitary manner. The assertion and dissemination of the ideas of the "Austrian School of Economics" need not only the reputation of a university department, but also the persuasion of the educated public, in the sense of supporting these ideas. For Mises, creating the vision of liberty was essential for the restoration of the free society, while for Hayek, each generation's rewriting of the theory of liberty was almost imperative for the invigoration of the liberal order of the big society. These are lessons that Professor de Soto always applies to his academic life and his cultural extensions and that is how his firm commitment to an activity, whose intermediate stages have just started to show results, can be explained: the establishment and coordination of the *Nueva Biblioteca de la Libertad* collection, begun in 1992, at Union Editorial, Madrid.

39 volumes of this collection have already been published, out of which 20 have the forward and the introductory remarks written by the coordinator. Many of these volumes belong to great liberal thinkers, such as Ludwig von Mises, Henry Hazlitt, Murray

Rothbard, Israel Kirzner, Arthur Shedon, Wilhelm Röpke, Edwin G. West etc.

Professor de Soto is also the editor for the Spanish version of the complete works of Friedrich von Hayek, *The Collected Works of F.A. Hayek* — 22 volumes, of which 7 have already been published.

Moreover, he personally translated a few works considered to be representative for the liberal economic thought.

In 2004, he founded *Procesos de Mercado: Revista Europea de Economía Política*, a semestral magazine where the scientific community has the chance to publish studies dedicated to the thorough analysis of the dynamic processes of social cooperation.

In addition, Professor de Soto is an active speaker, taking part in various academic events in Spain and abroad, such as the summer schools organized by universities, economic research institutes and intellectual reflection groups. He gave lectures and courses in: Austria, France, Italy, Belgium, the Netherlands, Great Britain etc., in Europe; Brazil and Chile, in South America; USA and so on.

* * *

The well deserved international recognition of professor de Soto is illustrated by his membership in various academic and professional or by the awarding of several prestigious prizes. Thus, Professor de Soto is member of the American Economic Association, Royal Economic Society, Mont Pélerin Society, Ludwig von Mises Institute, Société Montesquieu etc.

Recently, Professor de Soto has been awarded the „Adam Smith” Prize — Brussels and the Franz Cuhel Meomorial Prize for Excellence in Economic Education from the University of Economics in Prague.

Israel Kirzner rightfully expressed his deep consideration for the Spanish economist, considering him „one of the most productive and stimulating Austrian scholars in the world”.

The members of this commission cannot add much to this extraordinary characterisation offered by important personalities such as Israel Kirzner, highly appreciated both by the Austrian School of Economics and by mainstream economics. We can only draw the conclusions that are presented in this material:

„A professor of a rare talent, a scholar of an extremely wide intellectual horizon and with a deeply analytic capacity, and a writer who can make Economics to show as the best literary work, Señor Jesús Huerta de Soto ought to be named one of the last „Humboldtian” academics in the university field of economic science”.

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*Book
Reviews*

BOOK REVIEW OF *RE-UNDERSTANDING ENTREPRENEURSHIP* by Weiyang Zhang

DR. WILLIAM HONGSONG WANG*

Prof. Dr. Weiyang Zhang's (2024) *Re-Understanding Entrepreneurship: What It Is and Why It Matters* offers a thought-provoking perspective on entrepreneurship by re-examining its fundamental principles. The book presents valuable insights, particularly in its effort to highlight the role of entrepreneurship in economic development. However, some limitations emerge when analyzed through the lens of the Austrian school of economics, particularly Foss and Klein's (2012) judgment-based approach and Huerta de Soto's (2009) theory of dynamic efficiency.

Foss and Klein (2012) define entrepreneurship as judgment-based decision-making under uncertainty, where entrepreneurs control scarce resources. Zhang's book primarily focuses on opportunity recognition and discovery but does not sufficiently explore the entrepreneur's role as a resource allocator. While the book acknowledges the importance of entrepreneurial vision, it could further examine how entrepreneurs make strategic decisions in uncertain environments.

Moreover, Zhang's framework tends to present entrepreneurship as being predominantly shaped by external incentives rather than individual judgment and control. A deeper exploration of how entrepreneurs navigate uncertainty through ownership and decision-making structures, as emphasized by Foss and Klein, would strengthen the book's argument. By incorporating this dimension, Zhang's work could provide a more nuanced perspective on entrepreneurs' cognitive and strategic challenges.

Huerta de Soto's (2009) theory of dynamic efficiency underscores entrepreneurship's creative, coordinative, continuous, and

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transformative nature in driving economic progress. While Zhang's book offers a valuable discussion on market adaptation, it primarily views entrepreneurship as a means of optimizing existing market conditions rather than a force for disruptive change and the driving force of the market economy (Mises, 1949).

One area where the book could be expanded is its treatment of creative destruction, a fundamental concept in Austrian economics. Zhang's work would align more closely with the dynamic efficiency framework by further analyzing how entrepreneurs disrupt existing structures and establish new market equilibria. Additionally, a more in-depth discussion of the potential constraints imposed by regulatory frameworks and how they may hinder entrepreneurial innovation could enhance the book's policy recommendations.

Prof. Dr. Weiying Zhang's policy recommendations advocate for fostering supportive institutional environments for entrepreneurship. While this is a crucial aspect, a stronger emphasis on decentralization and the importance of spontaneous market order, as highlighted by Foss and Klein (2012) and Huerta de Soto (2009), would enrich the book's argument. Ensuring that entrepreneurship is not only encouraged but also allowed to flourish in an environment with minimal state interference and strong property rights is essential for sustaining long-term economic growth.

Additionally, Zhang's book could benefit from further analysis of how entrepreneurial judgment translates into firm-level strategic decisions. A more detailed discussion on how businesses sustain competitive advantage through adaptability and experimentation would provide readers with a more practical understanding of entrepreneurship's complexities.

Prof. Dr. Weiying Zhang's *Re-Understanding Entrepreneurship* makes a valuable contribution to entrepreneurship studies by offering fresh insights into its significance. However, a more integrated approach that incorporates the Austrian school's emphasis on judgment-based decision-making and dynamic efficiency would enhance its theoretical depth (Wang, 2017, 2019, 2023). By expanding on these elements, Zhang's work could provide an even more robust framework for understanding the transformative power of entrepreneurship in modern economies.

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BOOK REVIEW
ENTREPRENEURSHIP AND GOD.
The Role of Enterprise in the Thought of
Jesús Huerta de Soto and its Contribution
to the Social Doctrine of the Church,
Unión Editorial, Madrid 2026, 269 pp.
by Paulo Jorge Vieira Carvalho Oliveira

JOSÉ CARLOS MARTÍN DE LA HOZ

In the following paragraphs, we shall summarise the doctoral thesis in Moral Theology on justice and the Social Doctrine of the Church, written by Professor Paulo Jorge Vieira Carvalho Oliveira, an intelligent and well-qualified Portuguese businessman and economist who was ordained a priest and has produced this magnificent work.

Furthermore, the thesis itself is a summary of the contributions made by the Professor of Economics at Rey Juan Carlos University to the Social Doctrine of the Church from the perspective of the so-called Austrian School, of which he is a leading advocate and populariser.

I hope not to disappoint either Paulo Jorge or my great friend Jesús Huerta de Soto, and that this summary of the summary of the summary does not result in the impoverishment of such a rich doctrine and such a wise and enriching spirit, in accordance with the old principle that 'copying impoverishes'.

Certainly, the Austrian School—which, like the School of Salamanca, is founded on the dignity of the human person and on Christian humanism, as championed from the time of Francisco de Vitoria, Domingo de Soto and Melchor Cano right up to the present day—will, through the contribution of Friedrich Hayek, add a systematic and exhaustive critique of the socialism of the 1940s and its current proponents; that is to say, state control over the free market and prices (41).

Professor Vieira will focus on Huerta de Soto's fundamental contribution in 'the entrepreneurial function in Huerta de Soto'. As for who will explain the main characteristics of the entrepreneur in market life.

Logically, the characteristics of today's entrepreneur differ from those envisaged by Francisco de Vitoria, as market life then was not the same as it is today. In any case, Huerta de Soto views the merchant as the entrepreneur, as a man who has taken upon himself the mission of serving the nation whilst also serving his family and his own community. The common good is therefore much more than the sum of individual goods (49).

Certainly, Francisco de Vitoria has a great influence on Huerta de Soto, since he attributes to freedom the key characteristic, as well as that of considering the whole of society in which one is working and the impact of one's actions on society as a whole (50). In this sense, he unites justice with charity, as two essential virtues for social life, alongside prudence. For Huerta de Soto, being an entrepreneur means being a 'homo sapiens' and an 'entrepreneurial man' (51). Undoubtedly, new technologies have contributed to a new vision of dignified and responsible human action.

BOOK REVIEW
A HISTORY OF ECONOMIC DOCTRINES
by René Gonnard

CRISTÓBAL MATARÁN

This textbook on economic thought, written by the French economist René Gonnard, was published in 1947 and translated into Spanish in 1956. Very little information about the author can be found in academic repositories, making it unlikely that any further works by him have been translated into Spanish.

As for the content, it is to be welcomed that the author does not follow the approach of most current manuals on economic thought; that is, after the customary tribute to the Physiocrats and criticism of the Mercantilists, to turn to Smith as if he were the founding father of a science *created from scratch*. Instead, Gonnard explains the development of economic thought from Ancient Greece, through the Roman Empire and the Middle Ages. The author cites medieval thinkers such as Saint Thomas Aquinas, Saint Augustine of Hippo and John Buridan, but overlooks a central point: the School of Salamanca. It was precisely in the 1930s and 1940s that the studies initiated by Grice-Hutchinson and continued by Schumpeter and Rothbard took shape with regard to the discovery of the scholastic thinkers of the Spanish Golden Age as precursors of the most diverse theories concerning money, banking, prices and entrepreneurship.

In the second section, the author turns to the dawn of economic science with mercantilism. Although calling what the mercantilists did '*science*' amounts to a leap of faith. Rather, Gonnard suggests that they made some erroneous contributions – but contributions nonetheless. Thus, Gonnard devotes a chapter to 'Iberian mercantilism'. This is explained by the union of the Spanish and Portuguese crowns that took place between 1580 and 1640 during the reigns of Philip II, Philip III and Philip IV. However, it is striking that the name of José Larraz does not appear.

In Book III, devoted to physiocracy, Gonnard begins to lay the foundations for a more scientific explanation of the economy. The question of the natural order, introduced by Turgot, begins to take shape. This section, in true French fashion, concludes with the French Revolution as the centre of the world. The agrarian question, characteristic of a pre-industrial economy, occupies the bulk of this section, although the first authors critical of the market economy are already beginning to appear.

As for the fourth section, the British Classical School dominates it overwhelmingly. This is the longest volume of the work. It is to the author's credit that he begins this section with a historical introduction to the Industrial Revolution, albeit a somewhat brief one. The usual authors (Smith, Malthus, Ricardo, Bentham and Mill, amongst others) are covered, addressing their familiar themes (value, trade, currency, etc.).

But the most interesting contribution of the entire work appears in Book IV: the author devotes an entire volume to socialist thinkers. We do not merely find the usual chapter on Marx as an appendix, or epilogue if you will, to the Classical School. In this instance, the author provides a detailed account of thinkers such as Saint-Simon, Fourier, Proudhon, Blanqui and the collectivists who followed immediately after Marx and were condemned by the mainstream of Marxism. In fact, Gonnard goes as far as the Bolsheviks of the early 20th century. A veritable display of erudition.

Finally, Book VI is entitled '*Realist Schools*'. It is here that we begin to glimpse the Marginalist Revolution carried out in unison by Jevons, Menger and Walras, although it took on quite different forms as the decades progressed. The historicists, led by Schmöller, have their own chapter, although Menger is barely given a passing mention in the discussion of methodology. However, the author does discuss Mises in greater depth, particularly in his discussion of economic calculation from the 1920s onwards.

In short, this is a textbook which, despite having become somewhat outdated in the decades since its publication, raises several interesting points, particularly regarding its treatment of socialism, towards which it takes a relatively critical stance.

BOOK REVIEW
*EXPANSIVE DEMOCRACY: OR HOW TO
MOVE BEYOND CAPITALISM*
by Nicolás Sartorius. Anagrama
Argumentos, Barcelona 2024, 419 pp.

JOSÉ CARLOS MARTÍN DE LA HOZ

Nicolás Sartorius (San Sebastián, 1938), one of the most qualified theorists of communist thought in Spain, has brazenly penned an extensive work on the Marxist-Leninist utopia, presented with the utmost rigour and the greatest ideological audacity. The first part of his work consists of a review of the Second World War and the start of the Cold War, which he blames for the communist system's failure to develop to the point of achieving the proletariat's paradise, as it would have ultimately collapsed economically by failing to keep pace with the United States' arms race.

In his review of the strategies of the Second World War, he will emphasise the number of Russian casualties, who bore the brunt of the war, due to the capitulation of major European industrialists who allegedly sold out to the Nazis rather than ally themselves with communist Russia. In any case, ideologies aside, it is clear that the dead speak for themselves: Russia suffered 25 million deaths, far outstripping Germany, France, the United States, England, etc.

Likewise, the atomic bomb dropped with impunity by the United States on the two Catholic cities in Japan – when Japan had already been defeated – is said to have been dropped to put Russia in its place. Naturally, he makes no mention of the fact that the Freemasons are said to have decided the day, place and time.

Nor does Sartorius make any mention of Russia's position during the Cold War in the European countries behind the Iron Curtain, nor of Poland or the Baltic States. Of course, there is no mention of Stalin's purges or of the deaths in Crimea and in Siberia, simply because even they themselves did not understand those deaths, as they were the whims of a madman.

As the book's aim is to overcome capitalism through higher taxes for everyone, especially for the middle classes—who are the ones paying to the point of their own disappearance—and to turn us all into 'mileuristas' (people earning a thousand euros a month) who are easily controlled by the governments of the welfare state. That aid is reserved for those who align themselves with the ruling left, receiving subsidies and favours that will increasingly be available to fewer and fewer people. Sartorius overlooks the fact that Franco's mistake was to deprive us of our freedoms, and that is precisely what enabled democracy to take such a firm hold in Spain.

In truth, what Sartorius's utopia fails to explain, however hard it tries (118–119), is what will happen when the controlling, despotic and intrusive state succumbs—not only in Spain, but throughout the Western world—to this new culture emerging in the third millennium: global, feminist, solidarity-based and digital.

BOOK REVIEW
ATLAS SHRUGGED
by Ayn Rand
(Deusto Editions, 10th edition,
April 2024, 1226 pp.)

JESÚS HUERTA DE SOTO

It would, of course, be presumptuous and arrogant of me to present a review here of this most remarkable book, published precisely in the year I was born, 1956, and about which, moreover, rivers of ink have been spilled. But whilst speaking with my good friend, the great Mario Vargas Llosa—who left us not long ago, on a day not too far removed from the very last ones he spent in Madrid—I had the audacity to ‘reproach’ him, very cordially, for not having included in some of his masterpieces a clearer, more resounding and systematic message in favour of liberalism and the free system of social cooperation that he held in such high regard; further committing the tremendous impertinence of citing her as an example and adding at the end of my well-intentioned reproach, ‘as the remarkable writer Ayn Rand did in her works and, specifically, in *Atlas Shrugged*’. Mario’s reaction was immediate, and bearing in mind his kindness and ever-exquisite manners, I would say it was, to a certain extent, ‘violent’. But rather than being directed at me – which would have been appropriate given my utter impertinence – it was directed at Ayn Rand, as he told me, emphasising several times in a loud voice that ‘Ayn Rand was a terrible writer (and her works a literary disaster)!’

This anecdote about my exchange with the Nobel Laureate regarding Ayn Rand remained deeply etched in my memory and subconscious, to the extent that, recalling it once more following Vargas Llosa’s death in Peru, I decided to tackle *Atlas Shrugged* again (which I had read in its original version when I was young and in a great hurry), but this time much more leisurely in Spanish, a task I completed over the course of six months on 13

February 2025. And I have read, I would even say 'studied' this great book, focusing above all on both its potential literary merits and achievements and its ideological and doctrinal content (although, given Ayn Rand's writing style and passion, the two are inextricably linked).

It is true that I am not a literary critic, nor do I in any way consider myself qualified to comment on literary matters with the same confidence with which I do so in the fields of economic theory and political philosophy, which are my specialities. But on rereading *Atlas Shrugged*, I have once again found myself faced with a monumental work of over 1,200 pages, yet one that is practically a delight to read and highly rewarding; on many occasions, it is so gripping that it is very difficult to put down, and it rarely becomes tedious (perhaps, if at all, during the sixty pages of the legendary radio address by John Galt, the protagonist, which Ayn Rand includes near the end of the book —pp. 1059–1120— as a summary and ideological testament to her entire libertarian doctrine). Furthermore, the characters in the novel are presented with vigour and are very clearly defined. Some are true heroes—even mythological ones—of freedom; starting with the book's true protagonist, Dagny Taggart, a young woman of principle, endowed with great vigour for entrepreneurial action, and who, to a certain extent, makes *Atlas Shrugged* a 'feminist' work in the best (that is to say, uncorrupted) sense of the term; followed by the entrepreneur Hank Rearden, who defends his major business project against all odds until he falls victim to the State and its officials; and including the other entrepreneurs who, faced with the prospect of being manipulated, taken over and expropriated, decide to 'go on strike', abandon their businesses and retreat to a truly free place where they cannot be harassed. At the same time, it equally skilfully depicts the petty, irresponsible, arrogant and, above all, profoundly immoral characters, not only of the 'privileged' entrepreneurs (as Javier Milei would say) who end up capitulating and joining forces with politicians to secure personal advantages (represented by Dagny's own brother); but also, and above all, of the network of politicians and civil servants who, under the pretence of serving the 'people' and the common good, devote themselves literally to destroying the social order. In short, an argument whose

originality no one can deny, and written with such force and conviction that it makes me think perhaps my dear Mario Vargas Llosa was a little hasty in his disparaging comment (the reasoning behind which, incidentally, he never explained to me in detail, which is why I was always left with the feeling that he might have been influenced more by 'liberal jealousy' – by the realisation that, as the great liberal that he was, he had missed the opportunity to write a work which, far surpassing Ayn Rand's in literary merit, would have been capable of conveying his own liberal message with such conviction, force and energy).

And, as for the substance or doctrinal content of the book, I can add little more to what has already been written by the great libertarian authors who, starting with Mises and Rothbard themselves, have been commenting on it to this day. It must also be acknowledged that millions of copies have been sold and, consequently, that over the decades millions of people have come into contact with the ideas of liberty thanks to Ayn Rand and her novels, such as *The Fountainhead*, *We the Living* or *Atlas Shrugged*, which we are discussing here. To conclude this brief commentary, I shall simply point out that there are three aspects of Ayn Rand which, whilst acknowledging her great merits, have always kept me at a distance from both Ayn Rand herself and her 'Objectivist' philosophy. Firstly, I must highlight the sectarian nature of Ayn Rand and her circle—which would be hard to believe were it not described in such vivid detail in her biographies and numerous other writings. This sectarian exclusivism was even suffered by Rothbard himself when he was literally expelled from the Randian circle on the pretext of failing to cite the novel *Atlas Shrugged* as the original source for one of the theoretical contributions included by Rothbard in one of his academic articles! To this sectarian and exclusivist attitude of Ayn Rand and her acolytes (some of whom, such as Robert Hessen, were my lecturers at Stanford University), I must add, secondly, the inconsistency that strikes me in the fact that a thinker as purist as Ayn Rand never ceased to justify the necessity of the existence of a state, however minimal; whereas from her works in general, and *Atlas Shrugged* in particular, if anything can be deduced from the analysis and the principles set out therein, it is that 'minarchism' is also immoral and doomed to failure, and therefore the only

defensible alternative—as Rothbard soon discovered—is the unqualified defence of ‘anarcho-capitalism’ as the sole system of social cooperation consistent with human nature. Finally, and thirdly, what sets me apart from Ayn Rand is the profound atheism that permeates her works and her philosophy (although this is explicitly stated in only a few places in *Atlas Shrugged*, for example, on pages 1061, 1068 and 1072). The fact is that eliminating God as the Creator-Father—who, out of love and in freedom, created all things in the Universe and, above all, human beings—greatly weakens the message and the strength of the libertarian movement and, consequently, its ability to spread and prevail amongst humanity (see, for example, my article-lecture ‘Anarchy, God and Pope Francis’). So much so that I am convinced that the fusion of anarcho-capitalism and Catholicism is the most important moral and ideological milestone of this century, in which I have had the honour of participating, and which will undoubtedly make possible the triumph of truth and freedom in a future far less distant in time than most might imagine.

BOOK REVIEW
OUR ENEMY, THE STATE
by Albert Jay Nock
Unión Editorial, Madrid 2013, 172 pp.

JESÚS HUERTA DE SOTO

This is a book that is both remarkable and disconcerting. It is remarkable above all for the analysis presented in its opening chapters – perhaps the most anti-statist ever written about a critical period for the United States: the 1930s, during which, under the pretext of the Great Depression, the great American nation became gradually but inexorably infected, and, under the leadership of President Roosevelt, by the most odious form of statist fascism—originating in Mussolini’s Italy and German Marxism—which eventually spread throughout the world. In this regard, Jay Nock’s analysis, replete with quotations from *The Revolt of the Masses* by our own Ortega y Gasset, or from the great libertarian philosopher Herbert Spencer, is impeccable and devastating, in that it highlights the grave betrayal of the libertarian principles of the Founding Fathers of the United States—led by Jefferson and Madison—represented by the statist and totalitarian drift towards which the United States evolved from the New Deal years onwards.

Yet Jay Nock’s book is, in turn, disconcerting, for from the second part onwards—and particularly from Chapter 4—it becomes muddled and loses much of the analytical rigour with which it began. This is undoubtedly due to the failed attempt to apply, to the interpretation of the historical events analysed by Nock, the conceptual analysis developed by Franz Oppenheimer in his classic treatise *The State*. For whilst Oppenheimer’s distinction between the acquisition of wealth through economic means (voluntary exchange) and political means (the theft and plunder perpetrated by the parasites that are states and governments) is a fundamental starting point for any anarcho-capitalist theory, it is no less true that Oppenheimer was unable to bring to a conclusion coherently

draw out the consequences of his brilliant initial insight, instead falling into a 'liberal socialist' stance and a pseudo-Marxist analysis based on class struggle which, to a certain extent, is disappointing and renders much of his analysis fruitless. This flaw also extends to Jay Nock's work, insofar as, from the second half of his book onwards, he endeavours to reinterpret American political developments by drawing on, not only the worst aspects of Oppenheimer's confused conceptual framework of pseudo-Marxism but also the doctrines on land rent and land reform put forward by Henry George and his followers—doctrines which, many years ago, were thoroughly demolished by the theorists of the Austrian School of Economics, led by Rothbard.

In short, my assessment of Albert Jay Nock's book is ambivalent. Its main merit lies in its groundbreaking title, which has already become legendary, and in the anti-statist analysis of its first part; which, as we have indicated, is then completely ruined from Chapter 4 onwards. So much so that one is overcome by an irresistible urge to rewrite, under the same title, a comprehensive and coherent analysis that applies the entire body of anarcho-capitalist theoretical analysis currently at our disposal to historical reality.

News

*A pilgrim of freedom: reflections
by Favio Leon Lecca on the visit to Peru
by Jesús Huerta de Soto*

In a recent, thought-provoking opinion piece in *El Montonero*, the economist Favio León Lecca reflects on the profound impact made by the visit to Peru, between 19 and 25 April 2026, by the Spanish professor Jesús Huerta de Soto, one of the most passionate advocates of the Austrian School of Economics. Beyond the lectures, the author enthusiastically highlights a historic milestone: the awarding of an *honorary* doctorate by the National University of San Marcos to the distinguished professor. For León Lecca, the fact that a public university traditionally associated with collectivist ideologies should pay this tribute is a hopeful sign that new times of openness and pluralism are dawning in Peruvian lecture theatres, reviving the spirit of the historic visits by Ludwig von Mises and Friedrich Hayek.

From an academic perspective, the author highlights the powerful intellectual challenge that the Spanish professor posed to the local community: the urgent need to renew classical liberalism, which he considers to have run its course in its attempt to limit the power of the state. The proposal outlined here invites us to look with an open mind towards anarcho-capitalism, placing private property and contractual agreements at the heart of institutional design. León Lecca concludes with a sincere acknowledgement of Huerta de Soto's generosity, who not only sowed ideas through his eloquent speech aimed at young people, but also through the donation of over 1,600 books and the announcement of study grants, thereby ensuring a lasting impact on future generations of professionals and researchers.

To explore this enriching reflection on the future of ideas about freedom in Peru's academic sphere in greater depth, we invite you to read the author's full article by scanning the following QR code:



Remarks by the Argentine President, Javier Milei, at the Faro Foundation's annual dinner

At the Faro Foundation's end-of-year dinner, Argentine President Javier Milei delivered a speech in which he celebrated José Antonio Kast's electoral victory in Chile and reaffirmed the direction of his economic policy. The President centred his argument on the urgency of waging a 'cultural battle' in the realm of ideas. Drawing on Israel Kirzner's theories on distributive justice and, in particular, on the *Theory of Dynamic Efficiency* by the Spanish professor Jesús Huerta de Soto, Milei maintained that efficiency and justice are two sides of the same coin. Based on this theoretical premise, he argued that free-market capitalism is the only morally just system, as it respects private property and contractual relationships, in contrast to state intervention and social justice, which he described as coercive mechanisms that distort the market.

On the governance front, the Head of State reviewed the achievements of his programme, highlighting the reduction in the fiscal deficit and the recent lifting of foreign exchange controls – a measure he described as a moral imperative to restore freedom to citizens. He stated that, despite having faced a severe speculative attack, the economy has returned to a path of growth. To sustain this expansion in the long term, Milei outlined three core institutional drivers: economic deregulation aimed at unlocking increasing returns, the development of human capital, and trade liberalisation. He concluded by urging professionals and researchers to take the moral stand head-on to prevent the return of statist ideas in the region.

To access his speech, please scan the following QR code:



Last day of classes with students on the Bachelor's degree in Audiovisual Communication in the first semester of the 2025–2026 academic year

Professor Jesús Huerta de Soto has held the final class session of the first semester of the 2025–2026 academic year with students on the Bachelor's Degree in Audiovisual Communication at Rey Juan Carlos University. The module, which focuses on economics as applied to the field of communication, forms part of the teaching activities the academic has been carrying out for many years at this institution, where he also teaches on the Business Administration and Management programme and on the Master's in Austrian Economics.

In an emotional farewell, Huerta de Soto offered words of appreciation to his students, encouraging them to continue their studies with intellectual curiosity, independent judgement and, above all, enthusiasm.



MP Adrián Ravier defends the free-market model and the role of the entrepreneur in the Argentine Congress

During the budget debate in the Chamber of Deputies on 17 December 2025, the economist Adrián Ravier justified his support for the government's economic programme by reaffirming the need to break with the interventionist paradigm that has governed the country over recent decades. In his speech, Ravier contrasted the statist model of centralised planning with the liberal proposal for spontaneous 'bottom-up' planning, based on the ideas of the Scottish Enlightenment. The MP argued that the recovery of the productive and social fabric —affected by historic levels of poverty and destitution—requires an institutional environment characterised by limited government, monetary stability, openness to foreign trade, and strict respect for private property and legal certainty in contractual matters.

Furthermore, the MP identified the entrepreneur as the catalyst for the country's economic revival. Drawing on the theoretical foundations laid out by the Spanish professor Jesús Huerta de Soto in his work *Socialism, Economic Calculation and the Entrepreneurial Function*, Ravier highlighted the importance of the entrepreneurial function as a process of identifying and seizing opportunities guided by the free-market price system. He concluded by stating that the new budget consolidates fiscal balance and restores the leading role to the private sector over state bureaucracy, laying the foundations for the modernisation of the education system and public institutions. To access MP

Ravier, please scan the following QR code:



The JHSB Foundation is organising
the ‘Freedom Awards for Youth’, open
to those under 25, with a prize fund
of 170,000 euros

The deadline for submitting entries for one of the year’s most significant academic competitions in the field of Austrian Economics has now passed. The call for entries, launched by the Jesús Huerta de Soto Ballester Foundation, has concluded with a remarkable level of international participation, with researchers under the age of 25 submitting their analyses of the impact of state digital control on the spontaneous market order, addressing the key question: *“How does digital interventionism impact the prospect of Liberty?”*.

With the submission phase now complete, the judging panel is beginning to assess the entries received — unpublished essays in English of between 2,000 and 3,000 words — to decide the allocation of an unprecedented prize fund. It is worth noting that the prize fund totals 170,000 euros, with the first prize amounting to 100,000 euros.

To find out more about the terms and conditions of the competition, scan the following QR code:



Reflection by Professor Miguel Ángel Alonso Neira on the freedom of the Venezuelan people

In a recent and heartfelt reflection shared on his LinkedIn profile, Professor and economist Miguel Ángel Alonso Neira congratulated the Venezuelan people on what he considers to be a historic turning point and the start of a crucial phase in the restoration of their freedom. The academic points out that the events of early 2026 do not represent an anomaly, but rather the logical consequence and the moral, economic and historical failure of an authoritarian project. From an analytical perspective, Alonso Neira argues that so-called '21st-century socialism' employed a populist discourse of false equality to concentrate power, eliminate dissent and systematically destroy the productive apparatus and the foundations of civilised coexistence through coercion and the erosion of individual freedoms.

Finally, he concludes with a message of deep admiration for those who resisted tyranny and urges civil society to rebuild a free nation based on the rule of law, respect for property and individual responsibility, recalling that true freedom is not decreed from above, but is built up gradually from the grassroots of society.

To read the economist's full statement and take part in the debate on institutional reform and the region's economic future, please scan the following QR code:



Interview with Alejandro Nimo, Consul-General of the Argentine Republic to Spain, on the law on “Fiscal Innocence”

In a recent interview conducted by the journalist Carlos López, the Consul-General of the Argentine Republic to Spain, Alejandro Nimo, analysed the macroeconomic impact of the latest legislative reforms passed in the country: the amendment to the Criminal Tax Regime —known as the ‘Fiscal Innocence’ Act— and the 2026 National Budget. Nimo, a diplomat specialising in attracting investment, argued that both measures mark the beginning of a period of sustained economic expansion and legal predictability. According to his analysis, the new criminal tax legislation replaces a punitive approach with one based on the presumption of the taxpayer’s good faith, thereby reducing the criminalisation of administrative errors. The official emphasised that this paradigm shift creates direct incentives for capital repatriation, the formalisation of employment and the revival of domestic consumption through the channelling of real savings towards long-term productive projects.

From a doctrinal perspective, the consul linked these reforms to the methodological tenets of the Austrian School of Economics, emphasising the vision of a limited state that prioritises individual freedom and respect for private property. In this regard, Nimo highlighted the theoretical influence of his education, drawing on the teachings of the Spanish professor Jesús Huerta de Soto, whose ideas on institutional order and the free market form the basis for the design of the policies implemented by President Javier Milei’s administration. Finally, the diplomat noted a growing interest and a favourable shift in the perception of European and Spanish investors, who view the discipline of the new budget and the guarantees of legal certainty as signs of institutional maturity that are essential for attracting foreign direct investment to the region.

To view the full interview, please scan the following QR code:



The Austrian Journey: a documentary
on the intellectual journey
of Jesús Huerta de Soto

The Austrian Journey (*La odisea austriaca*) is a short documentary that traces the academic and intellectual journey of Jesús Huerta de Soto, one of the most prominent figures of the Austrian School of Economics and anarcho-capitalist thought in the Spanish-speaking world. Through his travels in Chile and Argentina to receive awards, honorary doctorates and other academic honours, the film presents these honours as a metaphor for the intellectual odyssey undertaken by Huerta de Soto and his disciples in the study and dissemination of Austrian ideas, highlighting the impact that schools of thought can have on public debate and the evolution of institutions.

To watch this biographical and analytical documentary on the impact of economic ideas of liberty in the Southern Cone, please scan the following QR code:



Interview with Miguel Ángel Alonso
Cancino, winner of the 2025 Young
Libertarian Voice Award, in *El Diario
de Madrid*

The newspaper *El Diario de Madrid* has published an in-depth interview with the researcher Miguel Ángel Alonso Cancino, president and co-founder of the Austrian Libertarian Association, to mark his recent international recognition with the 2025 Young Libertarian Voice Award. In the interview, the award-winner reflects on the significance of this recognition within the Spanish-American sphere — a sphere he shares with figures in political economy such as Professor Jesús Huerta de Soto and Daniel Lacalle — and emphasises that the award validates a collective and sustained effort to create spaces for intellectual development and academic debate for new generations of researchers.

During the interview, Alonso Cancino rigorously analyses the structural failings stemming from short-term political thinking, warning that decisions dictated by electoral cycles carry serious imbalances into the future, directly affecting fiscal sustainability and young people's life planning. In the face of the current polarisation of public discourse, the economist argues for the urgent need to restore institutional debate grounded in data, arguments and the methodological principles of the Austrian School. He also highlights a shift in attitude amongst young professionals, who are losing their fear of defending, with scientific rigour, the pillars of social prosperity such as private property, economic freedom and voluntary cooperation.

To access the full text of the interview and explore the analytical reflections put forward by the award-winner in greater depth, scan the following QR code:



Milei once again champions Huerta de Soto's ideas as the ethical foundation of his economic programme

In an interview prior to his participation in the World Economic Forum in Davos, Argentine President Javier Milei stated that the design of public policies must be based on ethical principles rather than on criteria of short-term political expediency. During the conversation, he quoted extensively from the Spanish economist Jesús Huerta de Soto and his theory of dynamic efficiency, emphasising the idea that justice and efficiency are inseparable concepts. Milei argued that respect for life, liberty and private property constitutes the moral foundation of the reforms being driven by his government, including fiscal balance, the reduction of public spending, tax cuts, the removal of foreign exchange restrictions and what is known as 'fiscal innocence'.

The president also maintained that the economic and regulatory reforms currently underway aim to strengthen market institutions and create favourable conditions for investment and growth. Furthermore, he linked his economic vision to a broader defence of Western values and property rights – aspects which, he revealed, will take centre stage in his address to the political and business leaders gathered in Davos.

To watch the Argentine president's full address, please scan the following QR code:



Reasonable Doubts: a documentary on climate change from the perspective of the Austrian School

The English-language version of the documentary *Reasonable Doubts* has been released; this film critically analyses the political and methodological foundations of contemporary climate discourse based on the principles of the Austrian School of Economics.

The film argues that, under the guise of environmental alarmism, a biased and instrumentalised scientific narrative has been constructed to legitimise a new form of global interventionism, the ultimate aim of which is to erode the institutional foundations of capitalism and the free world. Throughout its four chapters — which examine the political bias in research, the self-serving selection of data to instil fear, the suppression of scientific uncertainty and the omission of economic analysis — the documentary contrasts the rigidity of centralised planning with the capacity of free pricing, property rights and entrepreneurial creativity to optimally mitigate scarcity and promote human progress.

The documentary's analytical and empirical framework is underpinned by contributions from leading academics and specialists such as Dr Jesús Huerta de Soto, Daniel Lacalle, Manuel Fernández Ordóñez, José Ramón Ferrandis, José María Sáenz de Santamaría and Enrique Ortega Gironés.

To watch the full documentary, scan the following QR code:



Academic conference: Pedro Schwartz analyses the defence of the free market against state interventionism

Cardenal Cisneros University, in collaboration with the Austrian Libertarian Association, organised the academic event entitled 'In defence of the free market against interventionist policies'. The keynote address was delivered by the distinguished economist and academic Pedro Schwartz, who provided an analytical examination of the distorting effects of public regulation on price mechanisms and the efficient allocation of resources in the contemporary economy. The event, held in the university's Events Hall at 5.50 pm on Thursday 29 January, established itself as a forum for rigorous methodological and institutional debate aimed at students, lecturers and professionals in the field of economics.



Reflections by Professor Miguel Ángel Alonso Neira on the failings of the state

Professor Miguel Ángel Alonso Neira has shared an analysis via his profile on the professional networking site LinkedIn, in which he examines the inefficiency in the management of critical infrastructure and public services from the theoretical foundations of the Austrian School of Economics. Drawing on recent incidents of logistical and institutional breakdowns — such as disruptions to the rail network, the poor management of weather-related disasters like the DANA, and nationwide power cuts — the academic argues that these issues are not random anomalies, but systemic failures stemming from the inherent impossibility of centralised planning. His analysis is based on ‘fatal arrogance’, a concept theorised by Friedrich Hayek, noting that the problem with state intervention is not moral in nature but epistemic, given that no centralised body can centralise the practical, tacit and dispersed knowledge that the market coordinates spontaneously.

Furthermore, the analysis draws on Ludwig von Mises’s postulates regarding the impossibility of economic calculation in the absence of free prices. And, drawing on the theses of Jesús Huerta de Soto, Alonso Neira warns that state monopoly nullifies the mechanisms of accountability and error correction, perpetuating inefficiencies rather than rectifying them through competition.

To access the original publication, scan the following QR code:



“Neither Social nor Justice – The Pension System Scam”: a documentary on the pension system in Spain

The English-language version of the documentary *“Neither Social nor Justice – The Pension System Scam”* has been released (available on Prime Video and YouTube). It is the first episode of a trilogy that critically analyses the viability of the welfare state from the perspective of the Austrian School of Economics. Through interviews with leading academics and specialists — such as Dr Jesús Huerta de Soto, Dr Philipp Bagus and Dr Miguel Anxo Bastos, alongside experts Alejandro Macarrón, José Antonio Herce, Domingo Soriano and Esmeralda Gómez — the documentary examines the technical unsustainability and ethical dilemmas of the public pay-as-you-go system in the face of an ageing population, contrasting its structural shortcomings with the dynamics of an alternative market capitalisation model.

To watch the documentary, scan the following QR code:



Reflections by Professor Miguel Ángel Alonso Neira on the failure of interventionism

In a recent academic post on LinkedIn, Professor Miguel Ángel Alonso Neira analyses the institutional determinants that explain the structural decline associated with interventionist policies and so-called 21st-century socialism, basing his analysis on the theoretical pillars of the Austrian School of Economics. Drawing on Ludwig von Mises's foundational theses regarding the impossibility of economic calculation under centralised regimes, Alonso Neira argues that systematic political interference distorts relative prices, thereby undermining their function as indicators of scarcity and agents' preferences.

Furthermore, the analysis incorporates Friedrich Hayek's epistemological critique regarding the dispersion of tacit and local knowledge, and draws on the contributions of Jesús Huerta de Soto on macroeconomic manipulation (prices, wages and interest rates).

To access the original publication, scan the following QR code:



New article at the University of the Hesperides on the housing market

In a recent article published by the University of the Hesperides, the economist, lecturer and PhD Daniel Fernández Méndez examines the paradox of the residential property market in Spain. Using a microeconomic approach, the author demonstrates that the stagnation in new-build construction is due to the fact that the average profitability of property developers is in negative territory. This margin deficit acts as a structural economic barrier, neutralising the stimulus that rising final sale prices should exert on the production of housing assets under conditions of competition and a free market. In summary, through his study, Professor Daniel Fernández concludes that regulatory intervention creates a cost asymmetry that prevents convergence between residential demand and construction supply, resulting in a market that is structurally rigid market that is unable to respond to price signals.

To access the original publication, scan the following QR code:



The 2025 Nobel Laureate in Economics praised Javier Milei at the 2026 International Economic Forum on Latin America and the Caribbean

During the International Economic Forum on Latin America and the Caribbean, the economist Philippe Aghion — winner of the Nobel Prize in Economics for his contributions to the Schumpeterian model of endogenous growth — analysed the process of structural reform currently underway in Argentina under the administration of Javier Milei. From an analytical-institutional perspective, Aghion argued that reducing bureaucratic bloat and dismantling corporate corruption are critical macroeconomic preconditions for restoring the profitability of private investment and innovation. The academic emphasised that previous extractive regulatory frameworks created severe barriers to entry by encouraging collusion between incumbent firms and political power—a phenomenon characteristic of the so-called ‘middle-income trap’, which stifles entrepreneurial dynamism and hinders the efficient allocation of factors of production.

Aghion’s analysis highlights that regulatory simplification and the pursuit of macroeconomic stability are indispensable for reducing transaction costs in the domestic market, thereby enabling both the absorption and adaptation of cutting-edge international technologies and the development of local innovations. In terms of public policy design, the Nobel laureate’s analysis validates the country’s current market reforms not as mere fiscal adjustments, but as a necessary institutional shock to reconfigure the incentive structure. By strengthening competition and limiting state discretion, there is a shift from a rent-seeking equilibrium towards a dynamic model of ‘creative destruction’, where the survival of productive units depends on their productivity and the genuine creation of value.

The Austrian Liberal Association (ALA) champions the ideas of freedom in Brussels

An international forum focusing on the defence of freedom of expression in the face of regulatory frameworks governing public discourse was held in Brussels. The event, jointly organised by *ECR Patriots* and the *Political Network for Values*, served as a meeting point for researchers and defenders of individual rights from the Ibero-American and European regions.

The event saw the active participation of members of the Austrian Liberal Association (ALA), who, in collaboration with delegates from *the Mises Institute*, applied the analytical framework of the Austrian School of Economics to the analysis of current public policies. The speakers called on the academic and civil society communities to monitor legislative overreach on the European continent, which they defined as a critical hub of global regulatory production. They also urged active participation in public debate and the cultural struggle, arguing that reversing the dynamics of over-regulation and state interventionism is an indispensable theoretical and practical task for safeguarding market predictability, encouraging entrepreneurial discovery and ensuring the well-being of future generations.





Professor Jesús Huerta de Soto's reflections on taxes on the wealthy are published in the newspaper *El País*

On Wednesday 4 February 2026, the newspaper *El País* published a debate in its Opinion section entitled 'Should a special tax be imposed on the ultra-rich?'. In this space, Jesús Huerta de Soto, Professor of Political Economy at Rey Juan Carlos University, presented an analytical response entitled 'A proposal that harms progress and democracy'. From a strictly microeconomic perspective and within the theoretical framework of the Austrian School, Huerta de Soto argues that taxing wealth and high incomes does not penalise an isolated elite, but rather disrupts the process of capital accumulation necessary to raise the marginal productivity of labour and, consequently, the real wages of the majority of the population.

Furthermore, the article explores the effects of fiscal intervention on the institutional architecture and the stability of the rule of law. Huerta de Soto maintains that progressive taxation of an expropriatory nature distorts market signals by reducing savings and discouraging entrepreneurial discovery. By diverting economic resources from the private sector towards centralised allocation, it fosters a cooperative environment of rent-seeking and political patronage that erodes regulatory predictability and polarises the social structure.

In conclusion, the analysis warns that the ideal solution to reversing the current socio-economic crises does not lie in the 'virus' of statism, but rather in legal certainty, widespread deregulation, tax exemptions on savings and the imposition of strict limits on public spending, thereby safeguarding the incentives inherent in entrepreneurial boldness. Below we reproduce Professor Huerta de Soto's article in full.

14 OPINIÓN

EL PAÍS, MIÉRCOLES 4 DE FEBRERO DE 2020

El debate. ¿Hay que establecer un impuesto especial a los ultrarricos?

De Francia a California, crecen las voces que plantean corregir la brecha fiscal que separa a una mínima élite del resto de los ciudadanos para diseñar un sistema tributario más justo que refuerce las bases del contrato social y la propia democracia

Contra la mayor injusticia social del siglo XXI

ANDREU MISSE

Gabriel Zucman, profesor en la Escuela de Economía de París y catedrático de la Universidad de Berkeley en California, se ha propuesto acabar con la mayor injusticia fiscal del siglo XXI. Su propósito es que los multimillonarios paguen impuestos como los demás ciudadanos. Tras años de investigación, ha llegado a la conclusión de que las "personas inmensamente ricas" tienen sus obligaciones fiscales alojadas en beneficios en sociedades holding y otros sistemas perfectamente legales.

Su propuesta es que los privilegiados con un patrimonio superior a los 100 millones de dólares (84 millones de euros) contribuyan cada año con el 2% de su riqueza. La media personal la recaudar entre 30.000 y 380.000 millones de dólares (entre 23.000 y 288.000 millones de euros) en todo el mundo. En Europa serían unos 67.000 millones de euros. El tipo del 2% no es una cifra elegida al azar. "La de tipo", sostiene, "que permite que el impuesto sobre la renta no sea regresivo".

Zucman no se es limitó a que trata de sorprender con ideas originales. Discípulo de Thomas Piketty, es un estudiante de las fracturas intergeneracionales y la fiscalidad. "Durante 15 años, cartografié las mayores fortunas del mundo, analizando con objetividad sus técnicas para evadir impuestos en paraísos fiscales", explica en su último libro, *Los millonarios no pagan por el impuesto sobre la renta y otros delitos y delitos* (Le Monde). "Los multimillonarios no pagan impuestos sobre la renta y van a acabar con eso". A los 21 años, empezó a exponer las aristas de los bancos suizos y se convirtió en los balanzas de pagos de los países con un propósito: cuantificar la cantidad de activos ocultos en centros financieros offshore para entender mejor esta gran evasión.

El economista francés considera que "esta gran evasión fiscal internacional ha desempeñado un papel clave en el aumento de las desigualdades, el incremento de la deuda pública y, más aún, en el triunfo de un sentimiento de impotencia, caldo de cultivo en el que han florecido los movimientos reaccionarios contemporáneos".

El rigorismo y la de Zucman ha logrado un amplio respaldo académico al más alto nivel. Siete laureados con el Nobel de Economía enviaron una carta a *Le Monde* en la que respaldan la propuesta fiscal. Los firmantes son Paul Krugman, Joseph Stiglitz, Esther Duflo, Aditya Banerjee, Simon Johnson, Daron Acemoglu y George Akerlof. El profesor Stiglitz previó en el mismo diario que el 2% es "una tasa conservadora y más realista. Si eres multimillonario no obtienes una rentabilidad anual del 10%, lo estás haciendo muy mal. En estas circunstancias, gravar su patrimonio al 2% equivaldría a gravar el 20% de esa rentabilidad anual. Este es un nivel razonable en todo el mundo". La iniciativa de establecer una tasa del 2% a los patrimonios superiores a 100 millones

de euros fue aprobada por la Asamblea francesa en febrero de 2018, pero unos meses después fue rechazada por el Senado. No obstante, el debate sigue muy vivo, porque el 80% de los franceses está a favor de esta medida, según una encuesta del Instituto Francés de Opinión Pública (IFOP).

La propuesta de gravar a los más ricos para reducir la desigualdad ha cruzado el Atlántico. En California, una iniciativa de gravar con el 5% a los poseedores de un patrimonio superior a los mil millones de dólares ha desencadenado una fuerte batalla entre el gobernador Gavin Newsom y los promotores de la medida, el sindicato del sector sanitario Service Employees International Union-United Healthcare Workers West (SEIU-UHW), que propone destruir la recaudación a financiar los servicios de salud. Newsom, asustado, se opone al impuesto tras la decisión de desatender maguantes de traslado parte de su patrimonio a otros Estados.

Zucman considera que es la hora de dar el último toque al impuesto sobre la renta, el inmenso progreso democrático del principio del siglo XX, haciendo entrar a los multimillonarios que en realidad nunca han estado sometidos al mismo. Será una batalla dura como lo fue la introducción del impuesto hace un siglo, pero acabará aceptándose. Ninguna economía puede funcionar bien mucho tiempo con desigualdades tan extremas.

Andreu Misse es periodista y director de *Alternativas Económicas*.

Una propuesta que daña el progreso y la democracia

JESÚS HUERTA DE SOTO

Se ha puesto de moda pensar que la desigualdad y la riqueza "extrema" comprometen la democracia, por lo que hay que elevar aún más la fiscalidad de las rentas altas y el patrimonio. La idea es casi universal en una ciudadanía agobiada por salarios reales que no crecen en sociedades endorrazadas por el intervencionismo estatal y el exceso de regulación. Frente al eslogan fácil y la manipulación demagógica de que el "los de arriba" pagan más se refuerza el contrato social y se purifica la democracia, se obligan a todos los buenos ciudadanos a plantear algunas preguntas incómodas. Por ejemplo, ¿quién va a terminar pagando más, el rico de la caricatura o los trabajadores corrientes en forma de peores empleos y salarios futuros más reducidos? ¿Y qué efecto real tiene todo esto sobre la democracia?

La ciencia económica es torpe: sabe los impuestos a los ricos castiga el ahorro, la inversión, la innovación, la acumulación de capital y la creatividad empresarial, disminuyendo la productividad y los salarios reales de la mayoría. Y, simultáneamente, agranda aún más el poder de los políticos para conceder privilegios y subvenciones a los grupos de interés y comprar los votos necesarios para mantenerse en el poder. Todo ello en perjuicio de la igualdad ante la ley que exige una democracia sana.

Seguimos los trabajadores, uno de los y todos los trabajadores, el primero trabajo con herramientas obsoletas, riesgo y abono precario; el segundo, con un moderno tractor; y dispone de riesgo y

ahorro de última generación. ¿Quién gana un salario más alto? Obviamente, el segundo, y ello se debe a que es mucho más productivo, y no a la regulación estatal ni al gasto político ni a la redistribución de la renta. Simplemente, se debe a la mayor cantidad y calidad de bienes de equipamiento que hacen mucho más productivos al trabajo. Por tanto, penalizar fiscalmente a quienes ahorran, acumulan, innovan e invierten profundamente en esos bienes de capital es la manera más segura de ralentizar y frenar el crecimiento de los salarios.

Hagamos algunos números: un impuesto sobre el patrimonio del 3,5% al año significa que, por ejemplo, después de 20 años, se evaporan más de un 40% de los bienes de capital que se hubieran podido acumular a disposición de los trabajadores, con un coste inmenso para ellos, en forma de incrementos de salario futuro dejados de percibir. Supongamos ahora que al final triunfa la demagogia y se erigiera un gran Alamo de Ortega 80.000 millones de euros de su fortuna para repartirlos entre los 2.000 millones de pobres del mundo, que tocan a 40 euros por cabeza. Serían, ¿algunos pueden decir que eso mejoraría la democracia? Porque el castigo en términos de prosperidad, nivel de vida y cohesión social sería colosal: empresas cerradas o descapitalizadas, inversiones canceladas, innovaciones bloqueadas y, sobre todo, empleos destruidos y trabajos de peor calidad con salarios más bajos. A lo que hay que añadir el crecimiento eficientista del Estado, la burocracia y el clientelismo político. Porque cuanto mayor renta y riqueza detrahe constantemente el Estado y más discrecional es su poder, más se dedican los buscadores de subvenciones y grupos de presión a conseguir ventajas particulares corrompiendo (aún más) la democracia y el Estado de derecho. Al aumentar (solo a corto plazo) el botín a repartir en un contexto de identificación del desarrollo económico se limitan los conflictos sociales y aumenta la polarización, lo que dificulta el funcionamiento normal de la democracia.

En suma, la fiscalidad "contra los ricos" perjudica gravemente a los trabajadores, y en especial a los más vulnerables. A la vez que angustia y corrompe (aún más) la democracia. Por tanto, la receta para resolver la crisis social y democrática de nuestro tiempo, que es consecuencia inevitable del virus del estatismo que nos afecta, es, junto a la contra a los impuestos bajos y simples, eliminación del gravamen al ahorro y patrimonio, seguridad jurídica, respecto a la propiedad privada, deregulación generalizada y límites estrictos al gasto público que impidan que la cuota política impere, destina, expulse, y impacta corrompa los votos, la riqueza de aquellos que la crean con su esfuerzo y audacia empresarial.

Jesús Huerta de Soto es catedrático de Economía Política de la Universidad Rey Juan Carlos.

RIKI BLANCO

JURÉ LA CONSTITUCIÓN
SOLAMENTE POR LOS
REGALOS



EL PAÍS

A tax proposal against progress and democracy

Jesús Huerta de Soto Ballester

It has become fashionable to believe that inequality and 'extreme' wealth undermine democracy, and that we must therefore raise taxes on high incomes and wealth even further. This idea resonates easily with a public weighed down by stagnant real wages in societies paralysed by state interventionism and excessive regulation. In the face of the simplistic slogan and demagogic manipulation suggesting that if 'those at the top' pay more, the social 'contract' is strengthened and democracy is purified, it is the duty of every good economist to raise some uncomfortable questions. For example, who will end up paying more: the caricatured rich, or ordinary workers in the form of poorer jobs and lower future wages? And what real effect does all this have on democracy?

Well, economic theory is clear: raising taxes on the rich penalises saving, investment, innovation, capital accumulation and entrepreneurial creativity, thereby reducing productivity and the real wages of the majority. And, at the same time, it further increases politicians' discretionary power to grant privileges and subsidies to interest groups and to buy the votes needed to stay in power. All of this is to the detriment of the equality before the law that a healthy democracy demands. Let us suppose there are two workers, one Indian and the other American, working the same hours and putting in the same effort. The first works with rudimentary tools and makes do with makeshift irrigation and fertiliser; the second works with a modern tractor and has access to state-of-the-art irrigation and fertiliser. Who earns a much higher wage? Obviously the second, and this is because he is far more productive, not because of state regulation, public spending or income redistribution. It is simply due to the greater quantity and quality of capital goods, which make his work far more productive. Therefore, imposing tax penalties on those who save,

accumulate, innovate and invest precisely in these capital goods is the surest way to slow down and halt wage growth.

Let's do some maths: a wealth tax of 3.5 per cent a year means that, for example, after 10 years, more than 40 per cent of the capital assets that could have been accumulated for the benefit of workers would have evaporated, at an immense cost to them in the form of future wage increases they would have missed out on. Let us now suppose that, in the end, demagoguery prevails and Mr Amancio Ortega is expropriated of the 80,000 million euros of his fortune is expropriated and distributed amongst the world's 2,000 million poor, amounting to 40 euros per person. Seriously, can anyone claim that this would improve democracy? Because the cost in terms of prosperity, standard of living and social cohesion would be colossal: companies closed down or stripped of their leadership, investments cancelled, innovations blocked and, above all, jobs destroyed, replaced by lower-quality work with lower wages. To this must be added the massive expansion of the state, bureaucracy and political patronage. For the more income and wealth the state forcibly diverts, and the more discretionary its power becomes, the more effort and ingenuity 'rent-seekers' and those seeking subsidies, as well as pressure groups, devote to securing private advantages, thereby corrupting (even further) democracy and the 'rule of law'. The fact is that by increasing (only in the short term) the spoils to be shared out in a context where economic development is slowing down, social conflicts are fuelled and rendered intractable in an increasingly polarised environment that hinders or prevents the normal functioning of democracy.

In short, 'anti-rich' taxation seriously harms workers, and especially the most vulnerable, whilst at the same time stifling and corrupting (even further) democracy. Therefore, the solution to reverse the social and democratic crisis of our time—which is the inevitable consequence of the virus of statism afflicting us—is precisely the opposite: low and simple taxes, the abolition of taxation on savings and wealth, legal certainty, respect for private property, widespread deregulation, and strict limits on public spending to prevent the unproductive political elite from plundering—and distributing, in exchange for votes—the wealth of those who create it through their hard work and entrepreneurial daring.

Artur Marion Ceolin's doctoral thesis completed

On Friday 6 February 2026, the public defence of the doctoral thesis entitled '*Strategy, Entrepreneurship, and the Firm*', authored by the researcher Artur Marion Ceolin, took place at Rey Juan Carlos University.

The examining board awarded the thesis the highest academic mark, recognising the methodological rigour and theoretical relevance of a piece of research that lies squarely at the intersection of strategic management, the role of the firm and the economic theory of the firm. The event was attended by leading academics in the field, including Professor Jesús Huerta de Soto.



Martín Matzkin, Under-Secretary
for Coordination at the Argentine Ministry
of Security, visits Professor
Jesús Huerta de Soto

Martín Matzkin, currently Under-Secretary for Coordination at the Argentine Ministry of Security, visited Professor Jesús Huerta de Soto at Rey Juan Carlos University in Madrid. Matzkin, a specialist lawyer with a Master's degree from Austral University, has a distinguished track record in the design and implementation of public policies in the South American country, having established himself as a close collaborator within the team of the former minister and current national senator, Patricia Bullrich.



Ricardo Romero completes his doctoral thesis

The defence of Ricardo Romero García's doctoral thesis, entitled 'The State and Organised Crime: a comparative study of authority and its legitimacy', held on 18 February at the Vicálvaro Campus of Rey Juan Carlos University, was an academic event of great significance, particularly for the doctoral candidate. The examination board comprised three renowned professors and PhD-holding academics: Jesús Huerta de Soto, León Gómez Rivas and Estrella Trincado Aznar, whose academic careers ensured that the event a high standard of rigour and theoretical depth.

Following the presentation of the key lines of research — centred on the analysis of the legitimacy of the state from a natural law and anarcho-capitalist perspective — the members of the examination board made comments that allowed for a deeper exploration of the thesis's foundations and its ethical and political implications.



The panel's contributions not only helped to clarify certain aspects of the argument but also enriched the overall interpretative framework of the research. Finally, the thesis was awarded the grade 'outstanding cum laude'. Beyond the formal outcome, the defence represented the culmination of a lengthy process of study and reflection, as well as confirmation that the debate on the legitimacy of the state remains an open field requiring philosophical rigour, intellectual courage and a commitment to the truth.

The First Covarrubias Forum on Liberalism and Christianity is held

The Diego de Covarrubias Centre celebrated its fifteenth anniversary by organising the First Forum on Liberalism and Christianity, an academic gathering for interdisciplinary debate and reflection held from 10 to 12 April 2026 at the Benedictine Monks' Guesthouse in the Valley of the Fallen.

The symposium was designed as a formal discussion platform aimed at researchers, economists and professionals in the field interested in examining the analytical intersections between economic science, faith and frameworks of individual freedom. Through a format combining round-table discussions and individual presentations, the forum addressed the sustainability of the social and economic order from the perspective of Christian values and the liberal tradition.

The academic programme was structured around three main areas of macro- and microeconomic research. The first session addressed the theoretical compatibility between market processes and religious beliefs under the title 'Liberalism, thank God: Faith and the market need each other', with contributions from Carlos Rodríguez Braun, Daniel Lacalle and Oscar Rodríguez Carreiro. Furthermore, the limits of the public sector, aggregate expenditure and institutional reform were analysed at the roundtable 'Spain and the State: Limits, Dependency and Reform', featuring speakers such as Francisco José Contreras and Rubén Manso Olivar. Finally, the study of the productive fabric and applied microeconomics was the focus of the session 'Business, Family and Faith in Difficult Times', which featured presentations by the entrepreneur Marcos de Quinto, Carlos Jiménez-Muñoz, Ángel Ron and Antonini de Jiménez.



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CENTRO DIEGO
DE COVARRUBIAS

Another visit by a former student of the Master's in Austrian Economics to Professor Jesús Huerta de Soto

Jesús Huerta de Soto, Professor of Political Economy at Rey Juan Carlos University (URJC), welcomed Raúl Alosilla, a distinguished Peruvian alumnus of the Master's Degree in Austrian Economics, to the URJC's Vicálvaro campus. This meeting highlights the international reach of the postgraduate programme and serves as a forum for academic dialogue between Spanish academia and professionals in the field across the Spanish-speaking world.



The ALA becomes one of the sponsors of the Madrid Economic Forum 2026

The Austrian Liberal Association (ALA), together with the Juan de Mariana Institute, has formalised its inclusion as one of the official sponsors of the Madrid Economic Forum. This strategic agreement marks the expansion of Austrian ideas within one of the Spanish capital’s leading forums for macroeconomic and business debate.



Milei quotes Professor Jesús Huerta de Soto once again in the Argentine Congress

At the opening of the 144th ordinary session of the National Congress, Javier Milei's administration presented a review of its performance, focusing on stabilisation and structural transformation following its first two years in office, grounding its strategy in the theoretical tenets of the Austrian School of Economics. The presidential address accorded significant prominence to the thinking of the Spanish academic Jesús Huerta de Soto, whose arguments regarding the supremacy of the entrepreneurial function over the coercion of state planning were cited to justify the dismantling of regulatory distortions and the moral defence of the free market.

In line with the perspective of Huerta de Soto and Alberto Benegas Lynch, amongst others, the Government reaffirmed the immutability of fiscal balance as a *sine qua non* for inducing an endogenous fall in interest rates and optimising the allocation of resources. Finally, the President urged the Legislature to endorse a new institutional and legal framework designed for the next 50 years, based on the primacy of property rights and the minimisation of bureaucratic intervention as key drivers for sustaining the path of capital accumulation in the long term.

To access the full speech, you will find a QR code below to scan:



The Holy See emulates Javier Milei's fiscal consolidation

The economist Benjamín Santamaría, a member of the Board of Directors of the Diego de Covarrubias Centre, has presented an analysis in which he identifies a methodological convergence on fiscal consolidation between the policies of the Holy See under the pontificate of Pope Francis and Javier Milei's economic programme in Argentina. According to the author, the Vatican administration resorted to a strict 'zero deficit' policy and budgetary restraint to reverse a chronic deficit.

Furthermore, the author highlights the Vatican's pension reform as a case study in intergenerational equity in the face of liquidity constraints. Faced with actuarial projections warning of a serious future imbalance in the social security fund, the Church's leadership prioritised urgent structural measures to avert insolvency in the medium term.

Santamaría's conclusions suggest that the imperatives of fiscal stability, a balanced budget and the reform of social security systems function as universal technical requirements for institutional viability, regardless of the ideological framework or the nature of the state.

To access the analysis, scan the following QR code:



Javier Milei's 'Shadows and Lights' Conference is being held at the Juan de Mariana Institute

Economist Philipp Bagus presented a critical assessment of Javier Milei's economic policies at a conference organised by the Juan de Mariana Institute on Wednesday 4 March 2026.

The event served as a forum for technical debate amongst researchers and professionals in the field, who discussed the implications of this liberal experiment from the perspective of the Austrian School of Economics.



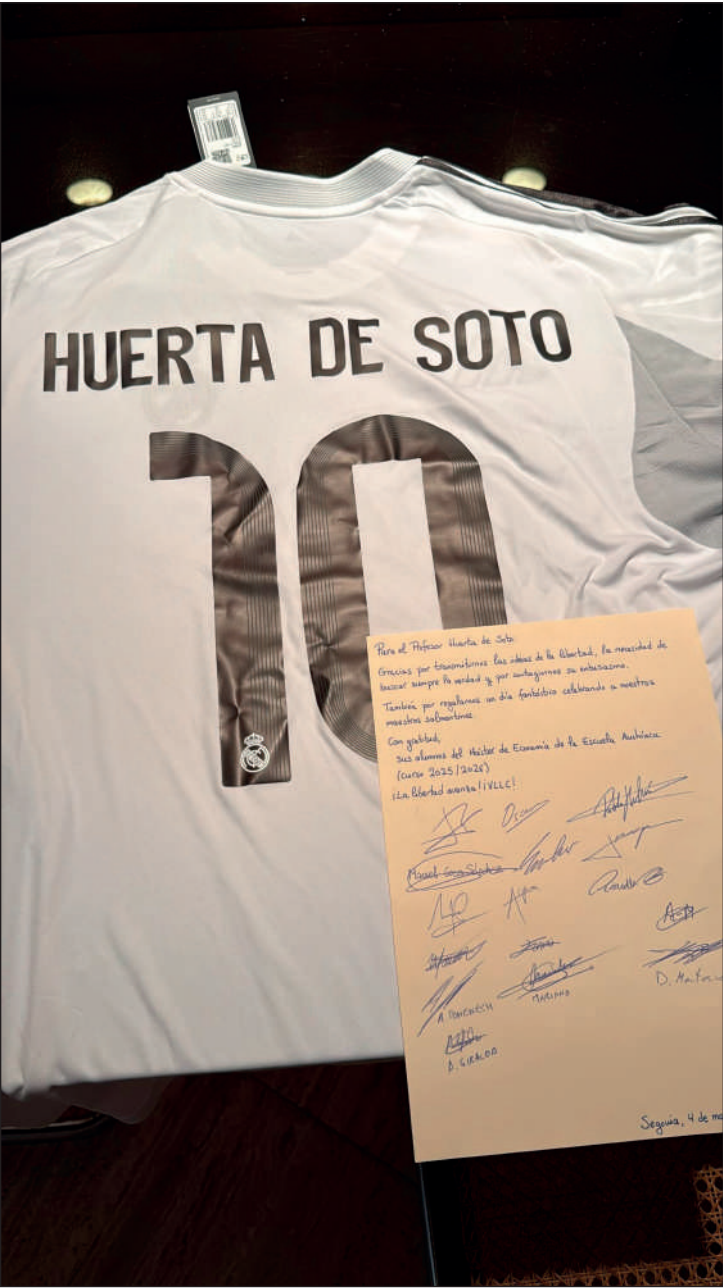
Field trip to Segovia with students from the 2025–2026 Master's in Austrian Economics

As has been the case in previous years, students on the 2025–2026 Master's in Austrian Economics programme visited Segovia, led by Professor Jesús Huerta de Soto.

The excursion consisted of a seminar by Professor Huerta de Soto on the theory of capital held beneath the famous aqueduct, a historical overview of Juan Bravo, and some reflections on the importance of the thought of the School of Salamanca and the Austrian School. In addition, everyone went to José María for lunch to enjoy the traditional Segovian menu comprising 'judiones de la Granja' beans and suckling pig.

At the end of the day, the students presented the professor with a personalised T-shirt as a token of gratitude for his teaching and his approachability towards the students.





Roger Garrison Obituary

February 7, 1944 - February 13, 2026

Roger W. Garrison, Professor Emeritus of Economics at Auburn University and a prominent scholar of the Austrian School of Economics, died Friday, February 13, 2026, in Auburn, AL at the age of 82.

Born in Joplin, Missouri, on February 7, 1944, to James Elmer Garrison and Hazel Halene Wommack, he graduated in 1967 from the University of Missouri at Rolla with a Bachelor of Science in Electrical Engineering. Following his graduation, he served as a commissioned officer in the United States Air Force. Stationed at Rome Laboratory at Griffiss Air Force Base, he worked as a systems engineer specializing in electronic countermeasures, eventually rising to the rank of Captain.

Following honorable discharge from military service in 1978, Garrison earned a master's degree in Economics from the University of Missouri at Kansas City and then spent two years working at the Federal Reserve Bank of Kansas City. Garrison then returned to academia to earn his Ph.D. in Economics at the University of Virginia in 1981.

Garrison joined the Auburn University faculty in 1978 where he became a celebrated scholar of the Austrian School of Economics, building upon the work of famed economists Ludwig von Mises and Friedrich A. Hayek. Garrison is notable for his graphical representation of the Austrian Business Cycle Theory and how it contrasted with prevailing Keynesian and monetarist models. Garrison's scholarship culminated in his 2001 book, *Time and Money: The Macroeconomics of Capital Structure*, which earned him the prestigious Vernon Smith Prize for the Advancement of Austrian Economics.

Beyond Auburn, Garrison was the inaugural Hayek Visiting Scholar at the London School of Economics in 2003, and he served as President of the Society for the Development of Austrian Economics

in 2004. He was deeply involved over many years in the Ludwig von Mises Institute as an adjunct scholar and Senior Fellow.

Garrison was a classic car enthusiast and collector. He was an active member of the East Alabama Old Car Club and the longtime author of the club's regular newsletter. His tangerine-orange 1956 Studebaker Power Hawk could be seen festooned with flags and ribbons at Auburn football games and holiday parades over the years.

Garrison is survived by his wife of almost 38 years, Karen Garrison; his son, Jim Garrison, and his wife, Margo Sulmont; and two nephews and their families. His family and extended family will remember his gift for a funny story, his impromptu presidential trivia quizzes, and the pleasure of watching Atlanta Braves games together in the living room. In addition to his vast intellectual curiosity, Garrison brought an understated sense of playfulness to family gatherings that will be deeply missed.

Contributions may be made in lieu of flowers to the REACH (Refresh, Encourage, Activities, Care, Hope) Community Respite Ministry of Auburn United Methodist Church or to a charity of your choice. A family memorial will be held later in the year.

MARK SKOUSEN'S THOUGHTS ON ROGER GARRISON UPON HIS PASSING

"I just learned today that the brilliant American "Austrian" economist Roger Garrison (Auburn University) passed away 3 weeks ago.

Professor Garrison was a long-time friend, and a big name in the "new" Austrian school. He was beloved by everyone for his wit and humorous stories, his contributes to Austrian capital theory, and his support for everyone's work, including mine. I had lunch with him and his wife Karen a few years ago, and was surprised he passed away so soon.

Roger and I both wrote on Austrian capital theory, and he was fully supportive of my work "The Structure of Production" and "Dissent on Keynes." We will dedicate a room to Roger Garrison at FreedomFest."



International Call for Research Grants 2026 from the Foundation Jesús Huerta de Soto Ballester

The Jesús Huerta de Soto Ballester Foundation's International Call for Research Grants for 2026 has been officially announced; this programme will award up to ten "Huerta de Soto Grants for Research into Anarcho-capitalism". This academic initiative is designed to fund original and rigorous projects that explore the functioning of a social order free from institutional coercion, as well as strategies for a democratic transition towards entirely voluntary cooperative dynamics, and to tackle new fields of study that examine how the evolution of new technologies and artificial intelligence can foster these processes of deregulation and entrepreneurial creativity.

This publication opens up a formal channel for researchers interested in contributing new theoretical models to the contemporary debate on the limits of statism, private property and the viability of institutions based on individual freedom.

To view the full text of the official publication, review the annex on key research areas and submit an online application for the grants, scan the following QR code:



Laissez Faire presents a commemorative T-shirt in honour of Professor Jesús Huerta de Soto

The LAISSEZ FAIRE project, led by the economist Juan Ramón Rallo, has announced the launch of a commemorative T-shirt in honour of Professor Jesús Huerta de Soto, one of the world's leading figures in anarcho-capitalism and the Austrian School of Economics. The T-shirt features an exclusive illustration by the artist Rodrigo Saldaña, accompanied by the professor's famous academic maxim, 'Socialism is contrary to human nature', alongside a reproduction of his official signature.





Launch of the introductory course on the Austrian School of Economics at the Alicante Association of Economists

On 11 March at 5.30 pm, the Alicante Association of Economists hosted the launch event for the academic programme '*Introduction to the Austrian School of Economics*', an initiative jointly promoted by Foro Liberal and the Juan de Mariana Institute, under the institutional patronage of the Jesús Huerta de Soto Ballester Foundation.

As a prelude to the training programme scheduled for May 2026, the event opened with a presentation of the book *The Austrian School of Madrid* by its author, Dr Cristóbal Matarán López; this is a key piece of research for providing a historiographical context for the contemporary development and consolidation of this methodological tradition within the Spanish academic sphere.



11
Marzo
17:30 h.

PRESENTACIÓN
Curso de Introducción a la Escuela Austriaca de Economía
Con la presentación del libro: "*La Escuela Austriaca de Madrid*"
CRISTOBAL MATARÁN

Patrocina: **Fundación Jesús Huerta de Soto**

Organiza: **FORO LIBERAL** x **Instituto Juan de Mariana**

Colabora: **economistas**

Juan Pina's reflections on the Swiss model of government

In the journal *La Región*, analyst Juan Pina has examined the institutional implications of the recent referendum held in Switzerland, where over 70 per cent of the electorate backed a constitutional reform to safeguard the right to use cash.

From a liberal perspective, the author emphasises that this decision reaffirms the model of institutional stability, direct democracy and respect for private property that characterises this Central European country. Recalling previous milestones in the Swiss electorate's economic maturity — such as the rejection of a national minimum wage in 2014 — the analysis emphasises that the debate on cash transcends mere technological preference to enter the realm of political economy and the preservation of individual autonomy in the face of state control.

Furthermore, with regard to means of exchange and payment, Pina warns of the tendency among various governments and international organisations to restrict the use of cash under the pretext of combating fraud, whilst promoting Central Bank Digital Currencies (CBDCs) in its place. According to the author, these tools seek to exploit technology to erode privacy and centralise information on the consumption patterns of economic agents.

To access the full article, scan the following QR code:



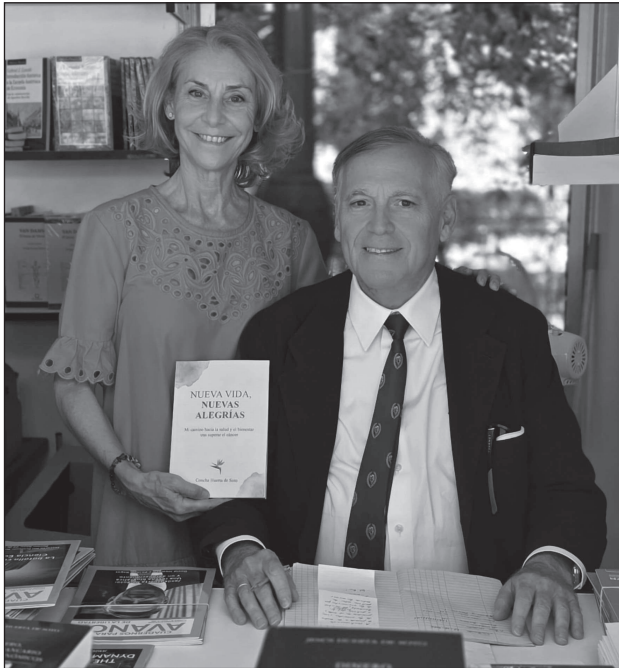
Unión Editorial takes part in the 85th Madrid Book Fair

From 29 May to 14 June 2026, one of the Spanish capital's major events took place: the Madrid Book Fair, which is celebrating no less than eighty-five years. On this occasion, the event – marked by Pope Leo XIV's visit to Madrid, alongside other large-scale gatherings – attracted more than twenty thousand visitors to the Paseo de Coches in the Retiro Park.

At stand 220, Unión Editorial presented new releases from various collections. Among the launches were two titles from the Nueva Biblioteca de la Libertad collection, edited by Jesús Huerta de Soto: *Socialism and Capitalism* by Hans-Hermann Hoppe, and *Entrepreneurship and God* by Paulo Jorge Vieira Carvalho Oliveira. Meanwhile, the 'Christianity and the Market Economy' series offered two new titles: *Business Management and Christian Humanism* by Francisco José Roa Castel and José Luis Fernández Fernández, and *And His Own Did Not Receive Him* by Gabriel J. Zanotti, as well as a reprint of Lucas Beltrán Flórez's now-classic work *Christianity and the Market Economy*. It is also worth highlighting the new releases from other series: Monographs – *Why My Uncle Wasn't a Billionaire*, by Rodrigo Floro Soler –, *La Antorcha –The Libertarian Utopia*, by Martín Krause–, *Law and Liberty –Essays on Liberalism, Culture, Property and Law*, and *Jurisprudence as a Spontaneous Order*, both by Ricardo M. Rojas–, and *A Contraluz –Van Damme: Vitruvius's Hero*, by Lorenzo Ayuso, and *The Beatles 1967*, by Lucas Magnin–.

Huerta de Soto signed copies of his entire body of work throughout Saturday 13 June, bringing together former students, academics, long-standing enthusiasts, and readers who are beginning to explore the Austrian School of Economics. Furthermore, 2026 has seen the publication of the ninth edition of *Money, Bank Credit and Economic Cycles* and the eighth edition of *Socialism, Economic Calculation and the Business Function*. The event was also particularly heart-warming: accompanying the professor, his sister Concha Huerta de Soto signed copies of her popular health book *New Life, New Joys*.

Despite the intense heat and the abrupt closure on the afternoon of Sunday 14th due to adverse weather conditions, Unión Editorial remains convinced that the philosophy of liberty is enjoying a golden age for Spanish-speaking readers.



Professor Huerta de Soto travels
to the Mises Institute in Auburn,
accompanied by a delegation
of professors, to deliver a lecture.

Between 18 and 22 March, a group of lecturers and young people had the opportunity to visit the headquarters of the Mises Institute in Auburn (Alabama). The reason for this trip was Professor Huerta de Soto's delivery of the 'Ludwig von Mises Memorial Lecture' to mark the centenary of the birth of Murray N. Rothbard, which was to bring the first day of the *Austrian Economic Research Conference* to a close (the text of the lecture delivered by Professor Huerta de Soto can be found on pp. 503–526 of this issue). This is an annual event at which a guest speaker delivers a keynote lecture on a topical issue. In this instance, Joseph Salerno invited Professor Huerta de Soto, and by extension all of us who accompanied him. Furthermore, this year's event commemorated the centenary of the birth of Murray Rothbard, one of the leading figures of the Austrian School who was closely associated with the Mises Institute in its early days. Indeed, he was the first editor of *the Journal of Libertarian Studies*.

Prior to the professor's lecture, a panel discussion was organised in which members of our delegation explained various aspects of this wonderful Austrian *hub* that we have all created together here in Madrid. Professor Miguel A. Alonso began by promoting the Master's Degree in Austrian School Economics, an essential programme that every liberal—not just Spaniards, but all Spanish-speaking people—should undertake. Next, Bernardo Ferrero and I promoted the International Doctoral School, which follows on from the Master's programme and marks the start of the academic career of anyone wishing to pursue a professional career in these fields.

Next, Daniel Gallego reported on the progress of the journal *Procesos de Mercado*, which is due to be indexed shortly and is gaining influence in academic circles. Afterwards, Philipp Bagus and Dave Howden discussed their series of books in *Palgrave Studies in*

Austrian Economics, a series of publications with excellent indexing in academic circles. It fell to Óscar Rodríguez Carreiro was tasked with presenting the *Madrid Annual Conference on Austrian Economics*. The next edition of the event, due to take place in October, will be particularly special as it marks the tenth anniversary, with surprises yet to be announced. Finally, *junior members* Miguel Alonso Cancino and Alfonso Muñoz presented their Austrian Libertarian Association (ALA), which is tremendously active and tirelessly waging the cultural battle on social media.

Furthermore, during the two days of the conference, various panels were held, covering the usual topics at an economics conference: methodology, public policy, business cycle theory and the history of economic thought. For example, in the latter panel, a very interesting paper was presented on Rothbard's critique of Calvinism. In a room in the southern United States, it was already clear which way the majority of the audience was leaning.

But the funniest bit happened, without us realising it, whilst we were on the return flight. Hans-Hermann Hoppe dedicated a warm-hearted column to the Mises Institute on his website. We need to put this into context. The atmosphere at the Mises Institute was rather tense following Israel's invasion of the Gaza Strip in the wake of the attack on 7 October 2023. As a pretext, Satan-hayū unleashed unprecedented violence in the Strip. On one side, Walter Block, another veteran of the American Austrian School and a Jew, defended the intervention as a matter of self-defence. The situation was resolved with Hoppe excommunicating Block. The gems he directs at him in the linked article leave no one indifferent.

Well then, it seems the second instalment of this soap opera has arrived. Hoppe directed some—let's say—less than friendly remarks towards Professor Huerta de Soto. On his personal blog, Hoppe published internal communications with Mises Institute staff, and this has gone down extremely badly there. Hoppe's argument is as follows: Professor Huerta de Soto defends the liberal reforms carried out by Milei's government (Salerno does too, incidentally), whilst Hoppe sees that Milei aligns himself internationally with the USrael, UK or European Union spheres of influence,

to name but a few, whilst distancing himself from the spheres of influence of Russia, Iran and China.

This sits very badly with Hoppe, because we do not know what it is about Russia that this so-called *New Right* now loves Putin's despotism or his invasions of Ukraine (here, the same argument that Gaza doesn't hold water). The fact is that, by association, anyone who gets close to Netanyahu must be complicit in everything the Israeli army does in Gaza. Even if it is merely a strategic alliance with a country (which counts for absolutely nothing in international politics) in a state of utter ruin, seeking to distance itself from international allies who are in no way reliable. It seems as though there are two clear sides here, and if you are not staunchly on mine, then you must be a genocidal maniac.

The situation has been resolved with Hoppe's dismissal as a *senior fellow* (the only one at the entire Mises Institute). Hoppe had already taken great offence at the fact that the Mises Institute in Germany had awarded a prize to Javier Milei. Among other reasons, Hoppe (and Hülsmann, incidentally) argued that they had not been consulted, and that the award should have been given to someone with a more academic profile rather than to an active politician. The situation had therefore been brewing for some time. This month has seen its definitive culmination.



Professor Huerta de Soto travelled to Lima accompanied by his entourage to receive his fifth honorary doctorate and the Medal of Honour from the Peruvian Congress

Continuing our mission to promote the Austrian School and anarcho-capitalism around the world, this past April it was Lima's (Peru) turn. In this case, the visit spanned a total of six days of absolute madness, as we had a truly packed schedule, which we summarise below.

Following our arrival on Sunday, 19 April, we began our pilgrimage through Peruvian lands on Monday. Thus, that very same day, the National University of San Marcos in Lima (UNMSML)—the oldest in the Americas, having been founded in 1551—hosted a series of lectures by the entourage accompanying Professor Huerta de Soto. Professor Huerta de Soto himself brought these events to a close with a keynote lecture at the Faculty of Economic Sciences, following his visit to the deans of the faculties of economics and law. Among the presentations, we gave a talk on *the* so-called *Austrian Hub*; however, unlike the presentation at Auburn, this one was delivered in Spanish. We left there just after nine o'clock in the evening, which in Peru is already bedtime.

The following day, to celebrate the 475th anniversary of the founding of the oldest university in the Americas, the main ceremony at the UNMSML took place, consisting of the conferral of *an honorary* doctorate upon Professor Huerta de Soto by the Vice-Chancellor, Jeri Ramón, at a venue called *La Casona*, which is more or less the venue where official events take place and is situated in the city centre, not the campus where we had been the previous day, which is further away (a QR code with the recording of the entire ceremony is provided at the end). In the afternoon, we worked a double shift for the first time. At 4.30 pm, the professor opened a conference at the Lima College of Economists, situated on Avenida Javier Prado. Immediately afterwards, he had to leave the venue and head to the Sheraton Hotel to bring to a close a meeting of the

Hispanic-American Network for Freedom, organised by Miguel A. Alonso Cancino and Alfonso Muñoz, amongst others, whilst the rest of us remained at the College to deliver our presentations. Well, here the professor was able to experience first-hand one of Lima's quintessential features: the traffic. It took him forty-five minutes to cross a single avenue, forcing the young people at the event to wait for him.

On Wednesday morning, we were treated to a visit to one of those places you never forget: the Central Reserve Bank of Peru (BCRP) – in other words, a place that is the bane of any Austrian economist's existence. It must be said that the constitution enacted by Fujimori in 1993 grants the central bank such extensive autonomy that all presidential candidates have spoken during their campaigns of getting rid of its director, Julio Velarde, a Bundesbank-style *hawk* who is keeping inflation at 1.5 per cent in 2025 because he refuses to monetise debt or reduce interest rates (4.25 per cent). The situation is not to be missed: Professor Huerta de Soto standing before the senior management of the BCRP, declaring that central banks are the devil and that they must all be shut down. Unbelievable. At midday, we had to squeeze in some time where there was none and visited the Congress of the Republic, just a few metres from the BCRP. The Speaker of the House, Fernando Rospigliosi, presented Professor Huerta de Soto with the Congress's Medal of Honour in the rank of Grand Officer. This visit had to be brought forward by two days, as Rospigliosi himself, due to scheduling conflicts, was unable to attend Friday's pre-viewing session. Furthermore, parliamentary rules stipulate that this honour can only be conferred by the Speaker of the House. Incidentally, the National Congress was in a state of disarray due to the building works currently underway. It is worth recalling that the Peruvian Constitution has recently been amended and that, in just a few months' time, the Peruvian legislative system will once again become bicameral, meaning a venue is required for the new Senate. In the afternoon, we visited the University of Lima to deliver our series of lectures. It is a 'vertical' university, that is to say, housed in a single building rather than the typical campus layout we are accustomed to in the Americas.

As for Thursday, the entire day was spent at the Peruvian University of Applied Sciences (UPC), at its San Isidro campus. This is not the largest of the institution's campuses institution, but it was the closest to us and the one where the economics and business degree programmes are based. We held the entire series of lectures here. For example, Juan Navarrete was able to outline the Institute's activities, whilst Alejandro Nimo told us about the policies implemented by President Milei during his first two years in office. At the end of the day, Professor Huerta de Soto was honoured by Mr Luis Bustamante Belaúnde, the institution's rector emeritus, as a visiting professor. Incidentally, Bustamante Belaúnde was a senator between 1990 and 1992 for the Movimiento Libertad, the party with which Vargas Llosa stood in the 1990 elections and from which Fujimori shamelessly copied the economic programme in the face of the hyperinflation ravaging the country.

On Friday we returned to the Congress of the Republic, this time for an institutional meeting with MPs Alejandro Cavero Alba and Adriana Tudela. Following this, we headed to the Alberto Andrade Carmona Auditorium to hold another event, this time alongside MP Gladys Echáiz Ramos. The 9th World Summit for Freedom was beginning at that moment, although it was to continue into the following day.

On Saturday, our final day, we spent the morning at the College of Engineers, where the closing ceremony of the summit that had begun the previous day took place, and where some of the professor's students paid tribute to him. In our speeches, we were asked to recount how we had met him and how we had come to know his work. It was a truly memorable day. From there we headed straight to the airport, as we had a flight that afternoon and, as we have already mentioned, Lima's traffic is as predictable as can be: there are always traffic jams.

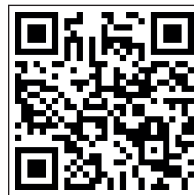


Editorial Avance has published the Spanish and English editions of Professor Jesús Huerta de Soto's *book Viaje al Cono Sur*

Editorial Avance has published the Spanish and English editions of the book *Viaje al Cono Sur* (Journey to the *Southern Cone*), a work that documents the historic and momentous tour undertaken in April 2025 by Professor Jesús Huerta de Soto, the world's leading figure in the Austrian School of Economics in Spain. This volume meticulously compiles the transcripts of his speeches, discussions and interviews in Chile and Argentina, as well as those conducted by his committee, vividly capturing the struggle for the ideas of liberty and the sharpness of his institutional analysis in the face of the challenges posed by interventionism.

The account details the highlights of this journey, such as his being awarded the prestigious Order of May by the President of Argentina, Javier Milei, and his conferral of *an honorary doctorate* by ESEADE University in Buenos Aires. Accompanied by a comprehensive photographic gallery of the meetings, the book serves as a vital record of the historic cultural shift and the battle of ideas in a region that is undergoing a 180-degree turn towards the free market and libertarian ideas.

To purchase a copy of the book, scan the following QR code:



Jesús
Huerta de Soto



VIAJE AL CONO SUR

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Jesús
Huerta de Soto



A TRIP TO THE SOUTHERN CONE

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Deirdre McCloskey receives the Juan de Mariana Prize at the Institute's Freedom Dinner from the Institute

The Juan de Mariana Institute has awarded its prestigious annual prize for an exemplary career in the defence of freedom to the economist and historian Deirdre McCloskey, distinguished professor emerita at the University of Illinois at Chicago. The award ceremony on 12 June at the Casino de Madrid coincided, as in previous years, with the traditional Freedom Dinner.

This recognition places McCloskey in a distinguished historical line-up of award winners that includes influential figures in contemporary liberal thought such as Jesús Huerta de Soto, Mario Vargas Llosa, Robert Higgs, Javier Milei and Juan Ramón Rallo.

The jury highlighted the transformative nature of her work in laying the foundations of classical liberalism, particularly through her monumental trilogy on the *Bourgeois Era*. In it, McCloskey argues that the great period of global economic growth that began in the 19th century was not primarily driven by capital accumulation or the institutional framework, but by a cultural shift in ideas: the social acceptance of the dignity and freedom of the entrepreneurial role. Furthermore, the researcher has revolutionised the methodological field with key contributions such as *The Rhetoric of Economics*, in which she dismantles naïve positivism by analysing economics as a discipline grounded in persuasion and rhetoric, thereby consolidating a forthright defence of individual freedom and the free capitalist market (a system she prefers to call 'innovism') in the face of state interventionism.

*Suggested
Further Reading*

In 'Developing Hayekian Insights on Social Science: Tensions and Contradictions Within and Between Spontaneous Orders', published in *Cosmos + Taxis*, vol. 13, nos. 9–10 (2025), pp. 37–56, Gus DiZerega develops and critiques certain contemporary uses of the Hayekian concept of 'spontaneous order'. The author argues that many interpreters of Hayek use the term too broadly by including phenomena such as culture, language or common law. According to DiZerega, these phenomena are complex adaptive systems, but not spontaneous orders in the strict sense.

The article argues that spontaneous orders proper — such as the market, science or even certain aspects of democracy — are characterised by explicit, impersonal and universal rules that generate simplified feedback signals, such as prices, votes or scientific validation criteria. In contrast, culture and language evolve through diffuse, tacit and non-standardised signals. The central thesis of the essay is that confusing these two categories undermines Hayek-inspired comparative institutional analysis. The text is particularly relevant for a deeper exploration of the Austrian theory of institutions and contemporary debates on liberalism, social norms and complexity.

Although the distinction proposed by DiZerega between spontaneous orders and complex adaptive systems is thought-provoking, his exclusion of customary law and the *common law* from the category of spontaneous order may raise objections from a more orthodox Hayekian perspective. Hayek expressly held that many legal norms emerge from an evolutionary process of discovery and social adaptation, without centralised design, thus sharing fundamental characteristics with the market. From this point of view, restricting the concept of spontaneous order to systems equipped with explicit and standardised signals could prove excessively narrow and exclude some of the most paradigmatic examples used by Hayek himself.

In 'Hayek-Myrdal Interactions in the Early 1930s: New Facts Change an Old Story', published in *History of Political Economy*, vol. 58, no. 1 (2026), pp. 59–83, Lars Jonung and David Laidler critically examine the intellectual relationship between Friedrich Hayek and Gunnar Myrdal during the 1930s. The article challenges the traditional interpretation that Hayek had reluctantly published

Myrdal's famous essay on monetary equilibrium. Drawing on newly discovered archival correspondence, the authors show that Hayek had personally invited Myrdal to collaborate long before Erik Lindahl's retirement and that he was familiar with and valued his work.

The study illustrates how, despite their subsequent profound differences on planning, state intervention and monetary theory, there was initially a closer intellectual interaction between Hayek and the Swedish economists than is usually recognised. The article also helps to shed light on the context of pre-Keynesian monetary and macroeconomic debates, as well as the emergence of the so-called Stockholm School. From a historiographical perspective, the paper highlights the importance of the international circulation of ideas within interwar monetary theory.

In 'Prehistory of Central Banking in Mexico', published in *El Trimestre Económico*, vol. XCII, no. 368 (2025), pp. 813–832, Carlos Marichal analyses the historical background to the creation of the Bank of Mexico and the early development of central banking functions during the Porfiriato and the Mexican Revolution. The author argues that the formation of the Mexican central bank was not a gradual evolutionary process, but rather the result of specific political and economic circumstances, following a pattern common in Latin America.

The article places particular emphasis on the role of the Banco Nacional de México, which acted as a private government bank and performed certain quasi-central functions without yet constituting a true central bank. It also examines José Yves Limantour's banking legislation, the adoption of the gold standard in 1905 and the creation of the Banco Central Mexicano as a clearing bank. The text is relevant for understanding the historical relationships between banking, political power and institutional development in Latin America. From an Austrian perspective, the discussion on the monopoly of issue, free banking and monetary centralisation is particularly interesting.

In 'Converging Heresies: Irving Fisher, John Bennet Canning, and the Theory of Income Between Economics and Accountancy', published in *History of Political Economy*, vol. 58, no. 2 (2026), pp. 235–261, Victor Cruz-e-Silva and Rogério Arthmar examine the

debates between Irving Fisher and John Bennet Canning on the theory of income and the relationship between economics and accountancy. The article demonstrates how Fisher developed a subjectivist conception of capital and income based on psychological utility and the capitalisation of expected future cash flows.

The authors highlight that Canning formulated one of the few constructive criticisms that Fisher explicitly acknowledged during decades of theoretical debate. The discussion centres on the definition of income, the problem of capital valuation and the relationship between saving, consumption and subjective satisfaction. The paper demonstrates the strong influence of the subjectivist tradition — which in certain respects is close to the Austrian School — on some early 20th-century American economists. It also illustrates how seemingly technical issues of accounting point to fundamental problems concerning value, capital and time in economic theory.

In 'Liberal rationality in The Fable of the Bees. A comparison with Adam Smith and Wenceslao Fernández Flórez', published in *the Iberian Journal of the History of Economic Thought*, vol. 12, no. 1, 2025, pp. 19–27, Carlos Rodríguez Braun and Fernando Méndez Ibisate analyse the liberal rationality present in Bernard Mandeville and its connection with Adam Smith and Wenceslao Fernández Flórez. The article highlights how these authors defended individual freedom and spontaneous order without succumbing to a naïve optimism regarding human nature, emphasising the importance of institutions, the rule of law and the limitations of political power. It is a thought-provoking contribution to understanding the moral and cultural roots of classical liberalism and its relationship with the Scottish tradition.

In 'Böhm-Bawerk's Theory of Interest from the Perspective of Germán Bernácer', published in *the Iberian Journal of the History of Economic Thought*, vol. 12, no. 1, 2025, pp. 87–100, Pablo A. Martín-Grande, a lecturer at Rey Juan Carlos University and an alumnus of the Master's in Austrian School Economics, examines the parallels and differences between Eugen von Böhm-Bawerk and Germán Bernácer regarding the problem of interest. The paper demonstrates how both authors drew on Turgot's insights, although they reached different conclusions regarding the nature

of interest and time preference. The article is particularly useful for gaining a deeper understanding of the evolution of the Austrian theory of capital and interest, as well as its reception within 20th-century Spanish economic thought.

The article begins by showing how, through authors such as Frank A. Fetter and Herbert J. Davenport, the Austrian School exerted a considerable influence on the US economy in the late nineteenth and early twentieth centuries. This school of thought, known in the United States as the 'psychological school', shared with the Austrians the subjectivist explanation of value and the idea that the prices of means of production derive, ultimately, from the valuations of consumer goods. It was within this intellectual context that Fisher's work developed.

The authors show how Fisher developed a subjectivist theory of rent, according to which the value of capital goods depends on the future flows of services they are expected to provide. Canning, drawing on accounting theory, accepted much of this approach but criticised Fisher for favouring theoretical constructs that were difficult to apply empirically. He argued that rent should constitute the fundamental concept from which to explain capital, and not the other way round. The article analyses how these criticisms led Fisher to partially reformulate the presentation of his theory, whilst not abandoning his opposition to treating savings and capital gains as taxable income.

The work is particularly valuable for Austrians because it documents the reception and transformation of Austrian ideas in the United States and shows how methodological subjectivism influenced debates on capital, income and taxation. From an Austrian perspective, the article offers a useful historical reconstruction of the influence exerted by Carl Menger's tradition on the so-called American psychological school and on such influential authors as Fisher.

In 'The Use of Algorithms in Society', published in *the Review of Austrian Economics*, vol. 37, no. 4 (2024), pp. 399–420, Cass R. Sunstein analyses the advantages and limitations of using algorithms in economic, legal and social decision-making. The author argues that, in many contexts, algorithms can outperform human

judgement by reducing biases and systematic errors, thereby improving the accuracy of decisions.

However, Sunstein emphasises that there are areas in which algorithms face insurmountable limitations. These include an inability to anticipate the consequences of complex social interactions, to grasp the effects of context and specific moments, to uncover hidden or changing preferences, to foresee unprecedented events or unexpected disruptions, and to access local knowledge scattered amongst millions of individuals. Therefore, whilst algorithms may be valuable tools, they cannot completely replace human judgement in environments characterised by radical uncertainty.

The article is of particular interest to readers of the Austrian School because it explicitly links the limitations of artificial intelligence and algorithmic prediction with Hayek's critique of central planning. Sunstein acknowledges that many of the problems faced by algorithms stem from the impossibility of concentrating and processing all the relevant knowledge existing in society, particularly that tacit, local and changing knowledge highlighted by Friedrich A. Hayek. In this way, the paper offers a contemporary application of the problem of knowledge to the debate on artificial intelligence and automated decision-making systems.

REVIEWERS

The following specialists served as reviewers for Volume XXIII of *Procesos de Mercado*. We are especially grateful for their efforts, dedication, and valuable suggestions for improving the manuscripts submitted to the journal.

— Abie Gryspan
— Alejandro Segura
— Andrés Caramés
— Arthur Marion
— David Sanz
— Daniel Morena
— Esmeralda Gómez
— Eugenio Guerrero
— Ferre Clabau
— Flavio Ezequiel
— Joaquín Azpitarte
— Joaquín Pérez Cano

— Juan José Toral
— Juan Navarrete
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— Miguel Anxo Bastos
— Noemí Díaz
— Pablo Martín Grande
— Petra Trag
— Víctor Espinosa
— Willians Ruíz
— Yago Mateos

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- Miguel Ángel Alonso Neira: *Una guía para el estudio de la Macroeconomía del Capital: ¿Existen razones para pensar que los ciclos recesivos responden a errores políticos y empresariales?*
- Paolo Zanutto: *Alcune osservazioni sugli aspetti economico-politici dell'opera di Juan de Mariana*
- Óscar Vara Crespo: *La fundamental homogeneidad de las teorías monetarias de Georg Simmel y Ludwig von Mises*

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2. Fallecimiento de Marjorie Grice-Hutchinson
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- Hans Mayer: *El valor cognitivo de las teorías funcionales del precio. Investigaciones críticas y positivas referidas al problema del precio*

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- Ingolf Günter Krumm: *Ludwig von Mises*

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2. Finn E. Kydland y Edward C. Prescott, premios Nobel de Economía del año 2004
3. Presentación de dos nuevos libros
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5. Presentación del primer número de la Revista *Procesos de Mercado*

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- Jaime Hormigos Ruiz: *Reseña de Diccionario de Sociología, de O. Uña Juárez y A. Hernández Sánchez*
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2. Se publica la traducción al español de *Time and Money. The Macroeconomics of Capital Structure*, de Roger W. Garrison (Edward Elgar, 2001)
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4. El pensamiento económico de la Escuela de Salamanca llega a Rusia través de la Revista de Método Económico y Matemáticas
5. Una tesis doctoral de referencia imprescindible
6. Presentación pública y primer evento del Instituto Juan de Mariana
7. Noticias breves

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- Huerta de Soto, J. (2006). *Money, Bank Credit, and Economic Cycles*. Auburn: Ludwig von Mises Institute.

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- Hayek, F. A. (1935 [1995]). Edwin Cannan. In B. Caldwell (Ed.), *The Collected Works of F.A. Hayek, Volume 9: Contra Keynes and Cambridge: Essays, Correspondence* (pp. 64–73). Indianapolis: Liberty Fund.

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