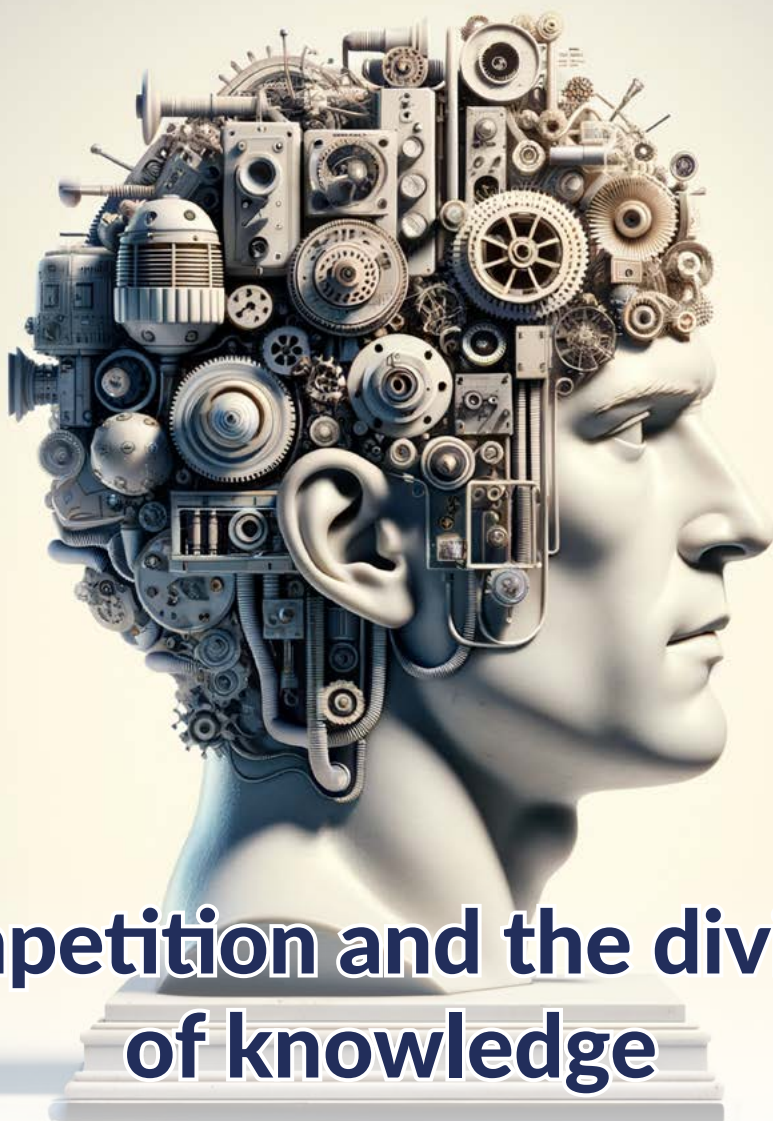


PAPERS FOR THE ADVANCEMENT OF

LIBERTY

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(English version)

IN OUR TIME



Competition and the division of knowledge

JESÚS HUERTA DE SOTO

Competition and the division of knowledge*

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Introduction

A student asks me in class a specific question about what happens if a man has all the resources and controls them... Look, we'll study that in the final part of the course, when we analyze monopoly and competition. But if you can't sleep for two months because you're so curious, I can tell you that your question arises from a fictional story told by the enemies of the market and human freedom. Because that situation can never happen. It would require that person to own all of that resource worldwide. But even if that were the case, economics is not about physical resources; it is not about objective realities. Even if someone owned all the oil in the world, it would be irrelevant if, for example, Elon Musk discovered another source of energy that was cheap and accessible to everyone. Do you see where I'm going with this? But again, we will look at all this in detail in the final part of the course, which is devoted to competition and monopoly, and we even have published doctoral theses on this subject. There is a whole branch of the Austrian School that deals with this, with books such as Armentano's *The Myth of Antitrust*, etc. Keep in mind that one of the manipu-

lative tools used by the enemies of the market to deceive the public is precisely to create fear about monopolies. And, in addition, we will explain how monopoly, far from being a curse, if it is not the result of state intervention, is a divine blessing: it means that it serves consumers better than anyone else, at a better price and with the highest quality. But anyway, we can't dwell on this because it's a part of the program that we'll look at in more detail later. Thank you very much for your question. Any more questions?

Well, if there are no more questions, there's a section of the book that I forgot to mention the other day, dedicated to arbitrage and speculation. I'm just mentioning it here so that you can familiarize yourselves with the terminology. It is generally said that arbitrage and speculation are typical examples of entrepreneurial activity. Arbitrage occurs in the present, at a time when the most important circumstances have not changed: I discover an opportunity for profit, I buy cheap and sell dear. Speculation, on the other hand, comes from the Latin *specula*, those watchtowers where the soldiers of the legions climbed to see what was coming in the distance. Speculation is said to be the exercise of the entrepreneurial function between two different moments in time. What time? Praxeological or

(* Verbatim transcript of the sixth class of the 2023-2024 course on "Text and Academic Commentary" taught by Prof. Huerta de Soto at Rey Juan Carlos University in Madrid.

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is one of the leading figures in the Austrian School of Economics today. His extensive academic career has earned him distinctions such as honorary doctorates from Francisco Marroquín University (Guatemala), Alexandru Ioan Cuza University (Iasi, Romania), Moscow Financial University (Russia), ESEADE (Argentina), and National University of San Marcos (Lima, Peru). He edits the journal *Procesos de Mercado* and, through his presence in the media and at events and projects of an informative nature, is today one of the most recognized voices in the field and ideas of Liberty.

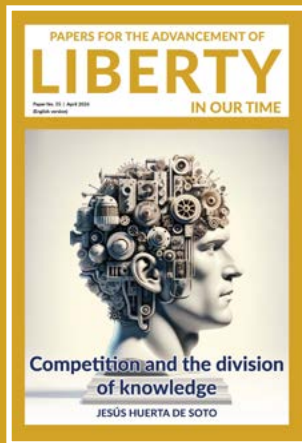
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experimental time: I buy cheap today in the hope that, in the future, I can sell it for more. I am simply introducing this terminological clarification so that you can familiarize yourselves with the terms. There is no essential difference between arbitrage and speculation: both are typical examples of the exercise of the entrepreneurial function.

The concept of competition

But now it's time to talk about competition. Please turn to page 32 of my book *Socialism, Economic Calculation, and Entrepreneurship*.

of human action, because it is inseparable from it. And in what sense are all human actions and all entrepreneurial actions competitive? It is very easy to understand. You have already read about it in the book, although you may not have fully understood it, so I will clarify it. The meaning is as follows: once a profit opportunity is discovered or created, that is, an end to which we assign value, and we set to work to undertake the different stages we must overcome to achieve it, each of them incorporating different means that are useful, and we successfully complete our action, in doing so, we appropriate that end, which means obtaining a benefit, sin-

Competition comes from the Latin *cum petito*, which means multiple concurrent claims on the same thing to which an owner must be assigned.

Dear students, the entrepreneurial function, by its very nature, is typically competitive. What does this “competition” mean? It is another of the essential terms on which much of our discipline, economics, hinges. Competition comes from the Latin *cum petito*, which means multiple requests for the same thing to which an owner must be assigned. I repeat: *cum petito*, competition, multiple requests for the same thing that must be assigned to an owner. In what sense is the entrepreneurial function eminently competitive? This is essential. What I am saying is that every entrepreneurial act, every human action, which is our most intimate manifestation as human beings, is always competitive; we are always in competition. The much-criticized competition, which the enemies of the market attack by calling it “the law of the jungle,” is nothing more than a typical manifestation of our own nature. Those who criticize competition are, in reality, attacking the very essence

ce the subjective value we assign to it is greater than the value of the ends we have renounced. This is precisely the concept of opportunity cost that we mentioned the other day. Once the goal we have discovered or created materializes and we take advantage of it, that goal disappears from the praxeological universe and is no longer available to other human beings. Therefore, all human action is, in this sense, a competitive action in which human beings, throughout the process, compete with each other to achieve their long-awaited end before others.

We said that the entrepreneurial act consists of discovering opportunities for gain and that each opportunity for gain arises from or embodies a previous mismatch or lack of coordination. Remember? We were just talking about it yesterday. Mismatch or lack of coordination is also the most obvious thing we can expect in the market. If there are eight billion creative human beings, each with their own criteria and

pursuing different goals, there will be almost infinite mismatches and lack of coordination. What a mess! How can this be organized? Let the government come in and fix it! As Karl Marx said: “...the anarchy of the market.” No! Because we have already shown that every lack of coordination or maladjustment takes shape or materializes in the form of a profit opportunity that remains there, latent, waiting to be discovered. By whom? By any of the human beings themselves or by the 8 billion who continually generate the maladjustments. Because as soon as the maladjustment arises, the opportunity to make a profit arises. I buy cheap, I sell dear, and

there would be no more latent opportunities for gain to discover or create? Does this mean that the process would run its course? Yes or no? I give you the answer in the book.

Suddenly, I see an opportunity for profit: “Nazaret. I get all excited every time I see her, I love Nazaret, I'm going to court her.” But Nazaret is surrounded and already being courted by ten or twelve others. It's clear that we're dealing with a competitive process; let's see who she chooses. It's a competitive process, and it's the same thing that happens to you when you go to a nightclub and someone steps on my female students' toes or someone steps on my male

All human action is competitive action in which human beings compete to achieve their goals before others do.

once I have discovered and taken advantage of that opportunity for profit, it is eliminated. There is no longer any room for that same opportunity, with all its particular circumstances of time and place, to be discovered and appropriated by another human being. So, it is clear that opportunities for profit are there. We seek them out, we take advantage of them, and at that very moment, they are eliminated. It is a dynamic process of rivalry in which all human beings participate, consciously or unconsciously. This process is eminently competitive and inseparable from our very nature. Its competitive nature means that, eventually, as there are eight billion human beings who are entrepreneurially gifted by our very nature, we could discover all the maladjustments or misalignments, that is, all the opportunities for gain? And if that were to happen, once we discovered and took advantage of them all, would there come a time when the competitive social process would stop because

students' toes. It's the same thing, a competitive process, an opportunity for gain. You value her, you like that girl more than another. What can I do to win her over? If things go well and, after the whole process, you hook up with her, you become boyfriend and girlfriend and get married, that specific opportunity for gain, with names and surnames, at that moment and in that specific historical circumstance, disappears. No one else can date her or marry her. Does this mean that, once all opportunities for profit have been exhausted, they will disappear and the competitive social process will stop? Yes or no? The answer is a resounding no, because the process is not only coordinating. When we act entrepreneurially, when we buy cheap and sell dear, remember the three essential effects of entrepreneurial activity, without which nothing in economics can be understood: there is an information-creating effect, a communication effect, and a coordination or adjustment effect.

ty generated by human beings in an entrepreneurial way. This process of unlimited, dynamic, and competitive expansion, as opposed to the much-maligned equilibrium model used by my fellow mathematical economists, constitutes the true essence on which all scientific development in our discipline should pivot. Not on the equilibrium model, but on the dynamic model of the social entrepreneurial Big Bang.

And if I finally marry Nazaret, she had three other suitors who are disappointed. One is even on the verge of suicide, and the other, well... time heals everything, and after a month has passed, he realizes that there are other girls.

monplace in our discipline thanks to its self-proclaimed founder, Adam Smith, who, incidentally, is not one of my favorites. Although many consider him the founder of economic science, Adam Smith did more harm than good. He inoculated the virus of the objective theory of value and the equilibrium model, on which the enemies of the market have built their entire lethal argument. It is incredible that many liberals go to conferences wearing Adam Smith ties! Every time I see one, I want to take it off. For example, my great friend Carlos Rodríguez Braun, right there and then, take it off and hang him (figuratively speaking) with his Adam Smith's tie!

In the coordination process, new information is created, which in turn generates further maladjustments, in a social process that never stops or ends.

And even if they all get married, new women are constantly being born. The social process never stops or runs out. Therefore, those who consider themselves defeated because they have not succeeded in competing should never despair. As General Franco—whom I do not like to quote, a fascist, a dictator, and elderly at the time—said: They told him, “We have bad news.” “What is it?” he asked. “Well, our prime minister, Admiral Carrero Blanco, has just been blown up.” And then he replied: “Every cloud has a silver lining.” An act of entrepreneurial creativity! Did you know that anecdote or not? Those present were taken aback by the response, and in fact, the dictator was right, because from then on, democracy came to Spain.

The division of knowledge

Let's now talk about the misnamed “division of labor.” It is another term that has become com-

Adam Smith talks about the division of labor; a serious mistake. What we have is a division of knowledge, an intellectual division. Mises, from 1920 onwards, in his analysis of the impossibility of socialism—because, as we discussed in the previous class, economic calculation in socialism is impossible—already refers to this, taking a step toward subjectivity and toward the modernity of the revolutionary approach of the Austrian School, which is what you are coming into contact with. Mises refers explicitly to the “intellectual division of labor.” At least he says “intellectual,” although “labor” should be removed. And let's ask ourselves a very important question. Because if anything characterizes the advancement of civilization, driven by an “army” of eight billion creative entrepreneurs, it is that we are increasingly taking advantage of a greater volume of information and entrepreneurial knowledge than we have at the individual level. Let me give you an example. Right now, I'm

wearing a Swiss watch. It was made in Switzerland! I have no idea how watches are made.

Older people develop cataracts, believe it or not. I have state-of-the-art intraocular lenses that allow me to see from a distance, at medium range, and up close. They were made in Belgium. I know nothing about this. Engineers, entrepreneurs, suppliers, hundreds, thousands of people have been involved in each of these products. I'm wearing a suit made of English wool that's made on Saville Street in London, but the wool comes from India. And you're using computers right now. Do you know how many thousands and thousands of hours of thinking, designing,

everything. And then, from the age of twenty or twenty-five, we start to lose ten thousand, twenty thousand, thirty thousand neurons every day. But it does not matter, because we have 150 billion neurons. Which, incidentally, is the same number of stars in our Milky Way constellation. And you know that when you look through a telescope and see thousands of stars, half of them are not stars, but constellations, which in turn contain billions of stars, meaning that we are in an immense universe.

And the question I wanted to ask is this: How is it possible that we can take advantage of an ever-increasing volume of information if

Although many consider him the founder of economic science, Adam Smith did more harm than good.

and programming went into them? And cell phones, let's see. There are idiots, like me, who have an Apple iPhone. And then there are sensible people who have the other operating system, Android. I say this because my son always laughs at me: “It's unbelievable, you're a typical Apple sucker.” And since I was taught with an Apple, and I'm too lazy to learn something else, I stick with Apple. And so on and so forth.

It's clear that human beings are increasingly taking advantage of a greater volume of information than they have available. And if there's one thing that differentiates human beings from two hundred years ago, or five thousand years ago, from human beings today, it's that today we take advantage of an immensely greater volume of information and practical entrepreneurial knowledge. And yet, human neurons haven't changed in the last million years. We have 150 billion neurons. Our children are born, they are small, their brains are like sponges, they absorb

our brain's capacity for management and understanding remains the same? The process of civilization's advancement is based on the following: human beings realize that we achieve our goals better if, instead of killing each other—as Israelis and Palestinians do—we trade with each other. In other words, we specialize in what we have a competitive advantage in. Some people are better at making shoes, others at making shirts, others at programming, and so on. In the early days of humankind, in prehistory or antiquity, when we were much less developed, although we had much less information to draw on, paradoxically, each human being had to have much broader and more varied practical knowledge from a qualitative point of view. We knew how to hunt, butcher animals, make clothes from skins, and cook. Women knew how to give birth: they would go to a tree and give birth, more or less. And what is this about knowing how to give birth?

Where has this been seen? Nowadays, you go to the hospital and they do everything for you. They even give you an epidural: “I do not want to know anything.” And then they take the baby out, unless you're a brave, heroic woman who says, “I want to have it naturally, like before.” But in any case, everything is monitored, with doctors on standby, and so on. It has nothing to do with the past. We also knew which plants were edible and which were poisonous, we knew how to fish, we knew many more things. If any of us were put in a time machine and traveled back in time, not a million years, but only two thousand, we would last less than a cake

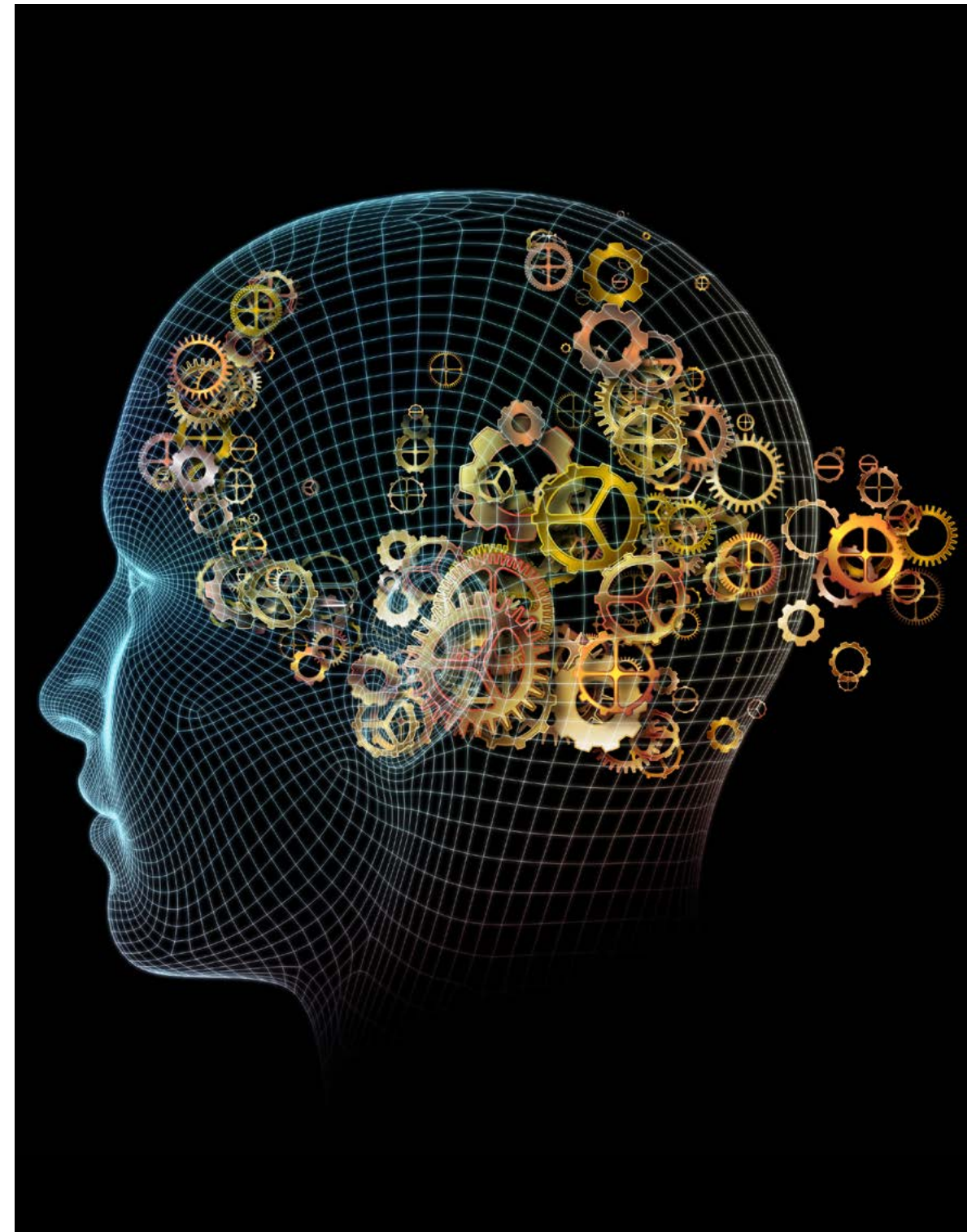
of knowledge and competitive advantage, in a dynamic process that never stops or runs out. And what happens? The light bulb goes on, and we realize that we come out ahead. Instead of having to replicate in our minds all the necessary knowledge—how to hunt, how to butcher the game, how to make clothes, how to make butter, and so on—we specialize and exchange products with each other. And that is what allows us to take advantage of an immense volume of entrepreneurial knowledge that we do not actually have individually. In fact, paradoxically, it can be said that, in quantitative terms, modern man knows much less than an-

The process of advancing civilization is based on our increasing specialization in a narrower field of knowledge.

outside a school, because we do not know how to do anything necessary to survive.

So how is this possible? The process of civilization's advancement is based on our increasing specialization in a narrower field of knowledge, in which we acquire training and a great competitive advantage. Today, I specialize not in computer programming language, which in itself would be something general, but, for example, in the Windows 5 operating system. And tomorrow it will be in something even more concrete and specific, such as artificial intelligence in any of its applications, and so on. But I do not know how to make bread or butter, or milk a cow, or practically anything else. I specialize in one specific thing. If I went back to a time in the past, I would starve to death because I do not know how to do almost anything to feed myself. Fortunately, however, the advancement of civilization allows each of us to specialize in an increasingly narrow field, with a greater depth

of knowledge and competitive advantage, in a dynamic process that never stops or runs out. However, even though we know less, our 150 billion neurons are not absorbed in replicating repetitive knowledge to be mediocre hunters, tanners, etc. We focus on something very specific. Today, for example, someone can specialize exclusively in Windows programming systems or the Windows 5 operating system, or artificial intelligence. Then, we exchange the products we generate, where we have a significant competitive advantage, with those of others. And although each of us knows less in absolute terms, our mental capacity, which is the same as it was a million years ago, is increasingly concentrated on a narrower area of knowledge. How is it possible that, with limited comprehension, we can take advantage of an ever-increasing volume of information and knowledge, to the point that today it is incomparable with that of centuries or millennia ago?



But the global volume of knowledge or information that we took advantage of at a given moment in history was very small, and then, over time, we took advantage of a volume a thousand times greater, and yet the mental capacity of each individual remains the same (each head has 150 billion neurons). It is clear that we can only globally support this immensely greater volume of information if the number of human beings increases and multiplies; that is, if the number of “creative human ants” increases. As Hayek says, we can be few and poor or many and rich. Those are the two alternatives, because we are not bacteria or penguins, where if one

people have been lifted out of poverty every year. Do you know what that means? Seventy million a year. In twenty years, how many people have been lifted out of poverty? One billion four hundred million! Never in the history of humanity has such a thing happened. Thanks to what? On the one hand, population growth is a necessary condition for the development of prosperity. And this necessary condition also becomes sufficient if it is accompanied by freedom, private property, and capitalism. Population growth is never detrimental to wealth. The doomsayers who dramatize the future, sycophants of the Club of Rome and Malthusianism, what do they say? They only

Population growth is a necessary condition for the development of prosperity. It is never detrimental to wealth.

jumps, they all follow. No! Every human being, even the most humble, is endowed with an innate creative capacity, and therefore the more “creative minds” there are, the better it will be for society, and the greater the volume of information that can be sustained collectively.

An example I often give: the year 1962—I remember it as if it were yesterday—The Second Vatican Council was inaugurated with Pope John XXIII. In a television report, they said: “There are 3.2 billion people in the world.” In '62, don't think it was a long time ago, it's not even a hundred years ago... And how many are we now? More than eight billion. But the important thing is that those 3.2 billion people who were in the world sixty years ago lived much worse than we do, had access to much less information, and enjoyed a much lower standard of living. Today there are many more of us, eight billion, and we are also immensely richer; and what's more, according to the UN, in the last twenty years, seventy million

conceive of the economy in physical, static terms; they think that the economy is “a pie to be shared,” and since it is “a pie to be shared,” the more people there are to share it with, the more poverty there will be. And then a man named Mao Zedong comes along with his cultural revolution and says, “We are very poor in China! One billion two hundred million!” It does not occur to him that they are poor because of socialism and communism. No; what they do is prohibit having more than one child, fine families, or even force abortions on those who have more than one child, especially if a girl is expected. And this monstrous regime has been in place until practically yesterday. But it turns out, dear students, that we are not bacteria, we are not mice, we are not penguins; we are creative human beings! And therefore, the more billions of us there are in an environment of free enterprise and respect for private property, the more expansion of civilization and wealth is generated in the world.

Here is a very curious historical case. You can look it up on the internet. It was the bet made by Julian Simon, a friend of mine, may he rest in peace, professor of economics and author of the book *The Ultimate Resource*, with Paul Ehrlich, who is one of the prophets of doom predicting the tragic future that awaits humanity if the population continues to grow. Simon said to him, “You are radically wrong. Human resources are the most valuable resource; human beings are creative. And I'll make you a bet: in twenty years, you say that oil will have disappeared, that there will be almost no copper, coal, or iron left, and that civilization will collapse. You

And they argued their case very well, in a population of one million inhabitants, all on horseback... What they did was project their past information onto future growth and say: “We are going to be buried in horse manure, it will not be possible to collect it, economic development will come to a halt. Father State, please defend us from all the misfortunes that have happened and are yet to come.” I do not care if it's horse manure, global warming, or the doomsayers of the Club of Rome. Human beings are manipulated and terrorized by those who always believe they are right. “It's obvious, of course, you can see it, we can't go on like this. We have to put a

Over the last twenty years, seventy million people a year have been lifted out of poverty In twenty years, that's one billion four hundred million!

believe that we should do what China is doing and prohibit population growth. Well, I bet you that in twenty years, the stocks of everything you mention will have doubled and prices will be half what they are now.” And Ehrlich, so convinced, accepted. Do you know who won the bet? And by a landslide: Julian Simon! None of those resources disappeared; on the contrary, they multiplied because human entrepreneurial ingenuity is limitless, and the more human beings live better, the more entrepreneurial and creative they are by nature.

Take a look at the newspaper archives, I was going to say from New York, but also from Madrid, between 1890 and 1900. There was a very serious problem that, it was said, could bring civilization to a halt. Do you know what the problem was? There are some really dramatic photos of New York, of its streets, and so on. The big problem that was going to bring civilization to a halt was, hold on to your hats, horse excrement!

limit on growth, we have to put a limit on economic development. Daddy State has to regulate, we have to sacrifice the horses, and so on.” And what happened? Fortunately, at that time there was no state that intervened so much. Nothing was done. I repeat: nothing was done. And the creative genius of a man discovered the internal combustion engine in 1908. Goodbye horses, goodbye problem. Everything solved. We went from one billion inhabitants to three billion two hundred million, and from three billion two hundred million to eight billion. And if you travel by plane, dear students, and you are curious like me, and you are not afraid of heights and you look at the ground, you will see that practically everything is empty, only occasionally is there a city. If the nanny state stops interfering and the force of entrepreneurial creativity continues its course, we could be not eight billion, but eighty billion human beings, and also much richer and more prosperous than we are now.

We cannot even imagine such prosperity. Not only eighty billion, but eight hundred billion, or, as the footnote in my book *Socialism* dedicated to the physicist Tipler says, our prosperity could increase a hundred billion times on Earth, in an environment of free enterprise and respect for private property.

Let's see, are any of you Trekkies? Do you know what that is? Has anyone seen the *Star Trek* series? I've been a big fan since I was a kid. As a child, I watched *Star Trek* with Captain James Kirk. Now its former stars are all old or have died. Then came Jean-Luc Picard, followed by the postmodern world with Captain

But why am I talking about internal combustion engines? There is nothing more harmful than all the measures being taken in relation to global warming. Why is Big Brother opting for electric cars? Who came up with such nonsense? They are even blocking entrepreneurial creativity in other areas. Combustion engines that produce half, a third, or a tenth of the CO² could be discovered, and in fact have been on many occasions. But all that potential has been cut off because the state has opted for electric cars. But do you know how much electric cars pollute? Do you know how much lithium pollutes? Do you know the damage that lithium mines do to

The economy is not about realities in the outside world. It is about ideas that human beings are capable of creating out of thin air.

Janeway. And now we have LGTBQJKR2 characters. Well, it does not matter. Tipler says that, with the support of the universe, humanity's capacity for expansion is unlimited. If only on Earth, imagine, with all the available areas, with colonies in the oceans, we could be a hundred billion human beings without any problems, neither environmental nor anything else, with support not only on Earth but in the universe, humanity's capacity for expansion is unlimited.

Because, I repeat, economics is not about the material realities of the outside world. It is not about the limitation of tons of oil, horse manure, CO², and so on. It is not about that. Economics is about spiritual realities, about ideas that human beings are capable of creating out of nothing. It only takes one human being to discover an internal combustion engine or triple-efficiency injectors for that to be equivalent, ipso facto, to a threefold increase in oil reserves. That's in the context of the internal combustion engine.

the environment? But then along come the social engineers from Brussels, from the ministry of the day or, worst of all, from the Ivy League universities in the United States. The most repulsive scientific arrogance. I'm telling you this so that you do not make the mistake of going to the United States to get your degree. They think they know a lot, that they are very smart, that "science is what is measurable". And their attitude filters down to politicians, and politicians are paid to create crises and appear as saviors of the homeland, thus gaining our fearful support. And they make us believe that we can sleep peacefully because Daddy State detects all the problems, keeps track of what needs to be done, is good, and achieves all the objectives. And besides, the cost does not matter because "the rich" pay for it. But the rich, as I say, are very few, and even if everything we have were distributed among the people, it would achieve absolutely nothing.



Think of the richest man in Spain, the owner of Zara, Amancio Ortega. Amancio Ortega's fortune: about eighty billion euros. Let's suppose that everything is taken away from him, expropriated, and, to the delight of Socialist supporters, distributed among all the inhabitants of the planet. Do you know how much each person would get? A ten-euro bill, like the one I tore up the other day. Everyone gets a sandwich, and the next day, what happens? With that eighty billion euros confiscated, dozens of factories have closed and thousands of workers have been laid off. And if this becomes widespread, we will return to the Stone

literated rate. In other words, capital accumulation is faster than population growth. Here we have the best of all worlds: new creative human beings, capable of unexpectedly changing the entire course of civilization, driving it forward and, in addition, generating a per capita accumulation of well-invested capital goods as a result of capital accumulating at an even faster rate than the increase in population. So, you know, dear students: have children. And if you do not want to have them, I do not care, because they will come from outside. If Spaniards do not want to have children, it does not matter, because they will come from other places, from

There is nothing worse for civilization and, above all, for improving the standard of living of the most disadvantaged, than persecuting capitalists and expropriating their capital.

Age. There is nothing worse for civilization, for the advancement of development and, above all, for the improvement of the wealth and standard of living of the most disadvantaged, than persecuting capitalists and expropriating their capital. Because that capital is invested in the form of machinery and productive equipment that greatly increases the productivity of workers. And workers, as we will see later, are always paid the value of their productivity (or more precisely, the discounted value of their marginal productivity), which is their wage. The more capital accumulated, the more wealth, the higher wages, and therefore the process of civilization is based on continuous population growth in an environment of freedom in which human beings realize that they stand to gain by accumulating capital, that is, by saving. And, as Mises explains, in addition to this, there is an increase in per capita capital, even though the number of human beings is growing at an acce-

Latin America or Africa, which is a blessing from God (if they come legally, respect property rights, and integrate as God commands). We in Spain have about seven million immigrants. And we are lucky, because for many there is not a big cultural leap (only a fifth come from the Islamic-Muslim world and the other three quarters from Latin America). You travel through Latin America and everyone speaks Spanish, with some accent or some peculiarity (for example, you say "coge a tu mujer" and they are scandalized, because there it has another meaning. I always say that these are matters of nuance. In Argentina, for example, they say: "Look at those Spaniards, how they speak, they call a skirt a pollera." Well, hey, what an elegant pollera you have. Here in Spain, girls would be shocked and would probably report anyone who expressed themselves in that way for harassment).

Well, I have explained to you the division of knowledge, the role of population growth, spe-

cialization, and exchange. And this is what expands knowledge and civilization without limits. As you can see, these are counterintuitive ideas, but this is the great contribution of economic science. And now I'm going to finish with the last two sections on this topic.

Creativity versus maximization

Many practitioners of economic science as a discipline seek to construct it in the image and likeness of the natural sciences, especially physics, which is considered the natural science par excellence. The world of physics, which

elements are given, and time is nothing more than an analogy of movement. Well, you know that in physics, phenomena are given... but in reality, they are not, because the entire universe is also moving at tremendous speed and expanding since the initial Big Bang fourteen billion years ago, and so on. But physicists approach the world in terms of mathematical maximization. That is, an objective function they want to achieve and means that are already known and assumed to be within reach. A problem of maximization, of maximums and minimums, is posed. I do not know if you remember, maybe you were taught this in high school: the first derivative is

If Spaniards don't want to have children, it doesn't matter, because they will come from other places, from Latin America or Africa, which is a blessing.

we have already discussed, is distinct from the world of human beings, the social sciences, and economics. Thus, we have seen that there are concepts such as physical time and experimental time, or the concept of class probability. In physics, probability is understood as a class phenomenon; in the world of human action, the concept of probability is completely different (case probability). We have also discussed the radical difference between practical entrepreneurial knowledge and scientific knowledge. On the other hand, if anything characterizes the world of physics, it is that its parameters are given. Physical science advances by discovering regularities, through laboratory experiments, whether direct or indirect, more or less complex, or by using tools such as a linear accelerator. Brilliant hypotheses are proposed, such as Einstein's theory of relativity—relative, absolute—and then, thirty, forty, fifty years later, it is proven to work. In the world of physics, the ba-

positive, the second is negative, and so on. The data is entered, a button is pressed, and the optimal maximization result appears.

Many of my colleagues (most of them) conceive of economics as a discipline created in the image and likeness of the world of physics, based on the criteria of constancy in phenomena and maximization. They aim to mirror what is done in natural science and applied engineering. And this suits them very well, because it seems that in this way they can achieve control over everything, control over our lives. They create large statistics departments, the National Statistics Institute collects data, they conduct surveys to see what consumers think, they press a button, and that's it.

And the European Central Bank develops a mathematical hyper-model of monetary policy; they think they know that if they increase the money supply and engage in quantitative easing, if they buy so many billions of debt, they

press the button and conclude: inflation will be 2%. And they tell us: “next year inflation will be 1.9%.” Everyone reads it and believes it!

But all this is nonsense, because the social world does not work like that. There are no certainties, everything is variable, and everything is variable because the future is ineradicably uncertain. And it is ineradicably uncertain because it is dominated by creative human beings, like you and me. And until we believe the relevant information and act to achieve the corresponding ends, the future will not be constructed or determined. Because the future is not “to come,” it is “to be done.” Therefore, we must rebuild the

Some of you look like you're thinking, “What a mess I've gotten myself into with this professor.” You would almost prefer that I give you four functions, some curves, a simple formula, press a button, and come up with an optimum and think that everything was under control. I don't do that, but not because I am not a mathematician, which I am by profession, but because that approach is incompatible with the discipline we are studying and because my mission is to teach you the scientific truth in economics and not the wrong approach.

The fact is that there are two opposing approaches: that of creativity versus that of

We need to rebuild the whole field of economics, not based on the old postulates of social engineering, but in terms of entrepreneurial creativity.

entire field of economics, not on the basis of the old postulates of social engineering and maximization typical of the 20th century, which also ended in the greatest genocides, world wars, and upheavals imaginable, but rather we must rebuild the entire discipline in terms of entrepreneurial creativity. This is the academic project to which I have devoted my entire life. Not alone, because I do not consider myself a particularly intelligent or original person, but rather as the heir to a tradition of noble lineage, which has its origins in the scholastics of our Golden Age and was taken up again by Carl Menger in 1871. Then came the following generations of the School: the second (Böhm-Bawerk), the third (Mises, Hayek), until we reached the fourth, to which I belong. And we should be very proud to have come into contact with this approach, especially as Spaniards, because its origins lie, I repeat, with those great thinkers of our Golden Age, at the University of Salamanca.

maximization. Economic science, in its origins, arose around an ideal type: *homo economicus*... *Homo economicus* was a soulless “human” being who pursued only financial goals in his life. The cultivators of the classical Anglo-Saxon school, led by Adam Smith and company, focused all their analysis on this figure. It was not until the Austrian School's approach spread, especially under the leadership of von Mises, that the Austrians realized that human beings must be studied as they really are and that the vast majority of us do not pursue strictly financial goals, because we are also influenced by friendship, honor, the desire to behave well, or philanthropic goals such as those of Mother Teresa of Calcutta. Therefore, economic science must be generalized, not as a science of *homo economicus* in a static and maximizing environment, but as a discipline focused on human beings with all their virtues, defects, and limitations, while in any case endowed with an innate creative en-



entrepreneurial capacity. And it is the protagonist of that competitive process of social and entrepreneurial Big Bang that never stops or runs out, although it tends to be as coordinated as humanly possible in each historical circumstance. Remember: entrepreneurial action coordinates, but it also creates and, at the same time, distorts the world, generating new opportunities and so on.

There was a famous economist, Lionel Robbins, who wrote a work entitled *An Essay on the Nature and Significance of Economic Science*. Let me tell you his story: two English socialists (the married couple Sidney and Beatrice Webb)

He therefore gives a strictly static definition of economics in terms of maximization. And this has been weighing down our discipline until the true message of Mises is discovered, which is that of the creative and unlimited expansion of human entrepreneurial knowledge.

Concept of society

That said, dear students, all that remains for us to do to finish the class is to define what society is; our concept of society. A word of warning: let us not fall into the errors of those who manipulate us, nor into those of many so-

Society is a spontaneous, dynamic process or structure that has emerged as a result of our own human nature when interacting with one another.

created an educational institution called the London School of Economics, with the aim of seeking an alternative to capitalism, which they considered wasteful. For them, their ideal was the Italy of the fascist Mussolini, the Nazism of Hitler, and, above all, the communism of Stalin. That was the origin of the London School of Economics. But foundations can sometimes be treacherous. In this case, they hired Professor Edwin Cannan, who was a liberal and understood a little of everything I am telling you. Cannan hired Robbins, who was a very young man who had made his career at the London School of Economics and had one advantage: he knew German. They sent him to Mises's seminar in Vienna. At Mises's seminar, he took notes, but he did not understand everything very well. And so, in his book, he defines economics in a reductionist way as the science that studies the use of scarce resources that are subject to alternative purposes and subject to resource constraints.

cial "scientists" who adopt an all-encompassing view and think that the concepts of state, nation, etc., are anthropomorphic realities. They tell us: "France and England declared war on Germany." That is a lie. France and England did not declare war on Germany. France and England are not human beings who can decide univocally for everyone or who have the capacity to act. Today I read in the press: "Spain has sent a plane to pick up Spanish refugees from Israel." Laugh it off. Spain has done no such thing, because Spain as such does not exist. In the social world, there is no reality outside of the ordinary human beings who constitute the process of social cooperation. This is an essential idea. It is not that Germany declares war on France. Four nobodies, led by a short man with a moustache and a Jewish face, who was terrible and called Hitler, decide to send millions of people to war to die, to fight against millions of others, when they had nothing against each other.

With manipulation and brainwashing, we are made to believe that we are part of a kind of organic being superior to ourselves, to which we are indebted; we are made to believe that, in front of a colorful rag we call a flag or a certain soundtrack we call an anthem, we must go to war and die. And we kill each other when, in reality, we would be much better off trading. Consider how serious it is to fall into the trap of thinking that these realities exist above ordinary human beings. So what happens then, professor? Does society not exist? No, it does not exist if understood in anthropomorphic terms. It does not exist if we say things like "Spanish society has deci-

you play with Meccano sets when you were little? Notice how we have to use foreign terms to understand reality. Imagine Meccano, like connected nodes that form a structure. Well, that, in motion, would be a process. Society is a spontaneous process or dynamic structure, that is, it has not been consciously designed by anyone, but arises only as a consequence of our own human nature when we interact with each other. It is a spontaneous and very complex process. I would go even further—Thomson and Thompson, who read the Tintin books? Are they still being read?—I would go even further: it is a spontaneous, *very complex* process, I would

The great wonder of economics, which is the youngest of all sciences, is that it has discovered this spontaneous reality of society and studies it.

ded this." Or as President Sánchez said the other day... Sorry, sorry, let's be respectful, Dr. Sánchez! He said: "In the last elections, the Spanish people decided on a progressive government with the incorporation of..." What? The Spanish people decided? Some may have decided one thing and others another, but how can anyone claim to represent all Spanish people?

But then, does society exist? Not in the anthropomorphic sense, but as an abstract concept that economic science allows us to understand. And that is what we are going to do now. I am going to explain the definition of society, because in order to understand what society really is, we need to know about economics, and we already have enough rudiments to understand its concept. Dear students, society is, mark my words, an abstract concept; it is a reality, but an abstract one. Let's take a look.

Society, above all, is a process. And what is a process? A process is a dynamic structure. Did

even say *extremely complex*; Hayek says it is the most complex order in the universe. It is made up of eight billion human beings, each endowed with an innate entrepreneurial, creative, and dynamic capacity. Each of them continually discovers and creates an unfathomable variety of goals and ends, developing tastes, assessments, and practical knowledge about the means to achieve them. And what does this spontaneous and extremely complex process consist of? It is a process of *human interactions*. What is the name of Mises' textbook? *Human Action*. But we do not act alone; we act by interacting with others. I buy from one person cheaply and sell to another expensively. Why? Because what I have, you lack, and vice versa, or we complement each other very well as a couple, and so on. It is a spontaneous and highly complex process of human interactions that are basically *exchange interactions*, many of which are reflected in monetary prices.

Furthermore, it is a process that takes place on the basis of a series of standardized behaviors, that is, *institutions* such as those we have seen in the fields of language, morality, law, economics, and money. And what drives this spontaneous and highly complex process of human interaction? It is driven by the force of the *entrepreneurship function*, which continuously *creates* information, communicates or *transmits* it, and coordinates the previously misaligned behaviors of human beings, all based on the principle of the *division of knowledge*. And all of this is always done competitively, so that the contradictory plans of human beings are gradually discovered and coordinated, as much as is humanly possible in each historical circumstance.

Society, therefore, exists. It is a reality, albeit an abstract one. This, and only this, is society. Society was not created by anyone, nor is it the result of a social pact or social control. The great

wonder of economics, which is the youngest of all sciences, is that it has discovered this spontaneous reality and studies it. Now, as economists, even though society was not deliberately created, we do realize and discover that it has an effect of extraordinary importance, producing a very significant result. Do you know what surprising result it produces? Take good note. This has not been organized by anyone, and it arises only from our spontaneous interaction, generating life! In what sense? In the sense that there are more and more millions of people, billions, and they are becoming richer. A richer, more moral, more ethical, more productive, more fulfilled life. That is the result of the process when it is allowed to evolve spontaneously and the state does not intervene or coerce it from outside.

Thank you very much, dear students.

ABOUT THE FOUNDATION, THIS MAGAZINE AND ITS SPANISH AND ENGLISH SUPPLEMENTS

The publisher of *AVANCE de la Libertad* magazine and the supplement you are holding is the Foundation for the Advancement of Liberty (Fundalib), based in Madrid. Since 2015, the Foundation has been working in Spain and internationally for the cause of economic and personal freedom for all human beings. Fundalib is an entity associated with the prestigious Atlas Network, based in Washington, which brings together some 500 pro-freedom think tanks in a hundred countries. It is also a member of European networks such as Epicenter and ELF. The Foundation researches different aspects of freedom in various areas. In particular, it periodically compiles several national and international indices on the state of freedom, including the Regional Tax Competitiveness Index (IACF) and the Economic Freedom Index for Spain's Cities (ILECE). The IACF was one of the six finalists for the prestigious Templeton Prize in 2024, and the ILECE was awarded the Europe Liberty Award in 2020. Fundalib has won several other awards and distinctions, notably first place in the international think tank competition organized by the European Resource Bank in Chişinău (Moldova) in 2019. The two documentaries produced by the Foundation have been included in the official selection of festivals in the United States and South Korea,



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and one of them won an international specialized festival (New York, 2023). The Foundation supports various civil society activist organizations and is a top publisher of books on the ideas of freedom. The Foundation's publications are available on the fundalib.org website, including the series of Brief Reports on Current Issues. Since June 2020, the Foundation has been publishing the aforementioned monthly magazine, which provides readers with brief opinion pieces aimed at spreading ideas throughout society. With a classical liberal and libertarian orientation, the magazine covers the entire ideological spectrum from classical liberalism to agorist and ancap positions, as well as objectivist philosophy. Fundalib thus seeks to promote the various families of individualism, aware of the fearsome resurgence of various forms of collectivism in our time, generally through the various populisms that are regaining political ground.

Since 2021, this magazine of short articles has been complemented by the supplement *Cuadernos para el Avance de la Libertad*. What you are looking at is an English edition of one of those *Cuadernos (Papers)*. On page 2 of this Paper, readers will find the code and web address to subscribe to the magazine, and on the website there are several other options for joining and supporting Fundalib.

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