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IN OUR TIME



**The most important contribution  
of economic science**

**JESÚS HUERTA DE SOTO**



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# The most important contribution of economic science\*

JESÚS HUERTA DE SOTO

### Introduction

On page 62 of my book *Socialism, Economic Calculation, and Entrepreneurship*, I reproduce the 'stick man analysis' diagram and explain that, in this act of creating information, a very important problem arises that describes the essence of the issues that arise from life in society. The fact is that each of us, separated from others, possesses private knowledge about ends and means, about what we value and what we want to achieve. This implies that it is very possible for continuous and numerous imbalances or lack of coordination to occur between human behavior; that is, any of the eight billion people want an end and seek the means to achieve it, but simultaneously there are others who pursue contrary ends and use different means. Because, as we have said, each person is unique, with private, unique, and unrepeatable knowledge. Now, if this is the case, it seems logical to think that eight billion "creative ants," each following their own path and pursuing contradictory things, would lead to chaos, to "anarchy." Wouldn't Karl Marx be right in saying that someone needs to impose order *by force*? Whether through the dictatorship of an absolute monarch, the dic-

tatorship of the proletariat, the dictatorship of popular sovereignty, or even the dictatorship of a current political leader, such as Sánchez or any other, it could be said that, without imposing order by force, there is no one to organize this chaos. We cannot allow everyone to think, discover, and pursue their own ends in an anarchic manner, with the interests of some contradicting those of others.

**The three effects of entrepreneurial activity: creation of information, transmission of knowledge, and –most importantly– the effect of coordination and spontaneous adjustment.**

Well, this is where economics comes into play with a fundamental discovery for humanity: that every entrepreneurial act of discovery and creation of information generates three effects of enormous importance. These effects explain how, without the need for a coercive organization imposed from above, a spontaneous order emerges within this apparently disorganized chaos. These three effects that we are going to explain are crucial and must be understood perfectly. Those who understand them will understand the whole social science. Those who do not understand them will not be able to understand anything about social

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

science or economics. Why are they so important? Because not only have we been able to discover the embryo that makes coordinated cooperation possible within a spontaneous order in freedom, but also because we have shown that when an order is coercively imposed from above, civilization is destroyed and humanity is wiped out (for example, by generating all types of conflicts, world wars, genocides, revolutions, etc.).

What are the three effects of entrepreneurship, of any entrepreneurial action? They are studied in detail starting on page 25 of my book *Socialism, Economic Calculation, and Entrepreneurship*. The first effect is the creation of informa-

frustrated, cannot achieve her urgently awaited goal due to a lack of resources; Andras, on the other hand, has the resources but does not value them and misuses them. The great wonder that explains economics is that any maladjustment or lack of coordination between the behavior of two human beings generates an opportunity for profit or benefit that remains latent, waiting to be discovered by an entrepreneur. All it takes is for any human being with entrepreneurial acumen to notice this mismatch. The moment they notice it, the information has been created, and at zero cost. It is irrelevant who the individual is who embodies the entrepreneur who acts by

**When attempts are made to coercively impose an order from above, civilization is destroyed and humanity is wiped out.**

tion. Every entrepreneurial action involves the creation of new information that had previously gone unnoticed. Let's take an example: here we have a human being named Nazaret. Nazaret greatly values an end; she has just created or discovered end "A" and believes she values it greatly. To achieve it, she realizes, entrepreneurially, that she needs a resource "R." On the other hand, we have Andras, who is in another physical or praxeological location (economics is not about physical terms, but spiritual realities). Andras could be sitting next to Nazaret, but be unaware of the situation. It turns out that Andras has that resource "R" in abundance, but he does not value it and, in fact, squanders it, throwing it away every day. This is a typical case of a natural mismatch that arises between two human beings, a mere drop in the bucket within a society of eight billion people, each creating and pursuing what they want and seeking the means they deem appropriate to achieve it. Nazaret,

discovering the mismatch. It could be Nazaret herself, it could be Andras, or even a third party. In the example in the book, I have added a third character: another "stick man." This third person, who has a lightbulb moment, realizes the mismatch. He perceives that Nazaret urgently needs resource "R," which she values highly in order to achieve her goal, and that Andras is misusing, squandering, or throwing it away. At that moment, upon realizing the mismatch, this third party creates information in his mind that he did not have before. This is the first effect of the entrepreneurial act: the creation of information.

But there is a second effect of entrepreneurial action: the transmission of information. To understand this, let us return to the example. Economics is about human action. What does entrepreneurial action consist of? It consists of creating or discovering an opportunity for profit and acting accordingly to take advantage of it. What does this third party who discovers the

mismatch do? It's very simple. He approaches Andras and buys his resource at a very low price: "Hey, Andras, don't throw this away, I will buy it from you for €1." When Andras receives this offer, he jumps for joy: "Someone wants to buy this junk from me for €1! I am so lucky. Today is the happiest day of my life." The transaction is closed with a handshake, and Andras sells his resource for €1. Next, this third party approaches Nazaret, who is depressed because she cannot achieve her goal due to the lack of resource "R" (precisely the one Andras had), which is blocking her. The third party offers her the resource she so desperately needs: "Nazaret, do you need this re-

the market, which are also continuous, growing, and multiplying every day, translates into a profit opportunity that remains there, latent, waiting to be discovered. Who can discover it? Any human being who acts entrepreneurially. It is part of our innate entrepreneurial ability to create and discover these profit opportunities at no cost. I notice the lack of adjustment, buy cheap from one, sell dear to another, and make a profit.

But when we act in this way, a second effect occurs: the effect of transmitting or communicating information. Transmitting entrepreneurial knowledge means enabling another human being to create, discover, or understand in

**It is part of our innate human capacity for entrepreneurship to discover, at no cost, opportunities for profit.**

source 'R' for your goal?" "Yes, I need it urgently." "Well, here you go, for only ten euros." "Only ten euros to achieve my goal? You've made me so happy today! How lucky I am!" Nazaret, upon receiving the resource, feels that she has achieved her long-awaited goal thanks to this transaction. The third party has no means whatsoever. I have already told you that any of you can take on the world and reach the top in an environment of freedom, without coercive manipulation by the state. It is a secondary issue that someone finances the euro or whatever you need. The important thing is that you discover the opportunity to buy cheap and sell dear, and as a result of this you obtain a pure entrepreneurial profit of nine euros. This profit arises from the entrepreneurial act.

The first effect is the creation of information. I realize the imbalance. I repeat: the great wonder, the wonder that has us economists (who know about economics) surprised and amazed, is that every maladjustment and lack of coordination in

their mind information that we had previously discovered. For example, when I buy Andras's resource for €1 in a free market, new information emerges that is transmitted in successive waves throughout the market. This information is available to anyone who wants to be alert or has entrepreneurial acumen. And what is that information? The information says: "Do not squander resource 'R', because there is demand for it and there are people willing to pay for it." In turn, when I sell the resource to Nazaret for €10, information is transmitted in the market, to the extent that there is freedom, that is, without coercion or state interventionism, in successive waves that communicate the following: "All of you who can imagine achieving goals for which resource 'R' is necessary, and who were frustrated because you could not obtain it, can now go ahead, because the resource is available." Furthermore, this communication, which occurs in successive waves within the spontaneous order

of the market, is greatly enhanced by signals that carry a qualitative amount of information, but presented in a highly compressed form: the minimum necessary to guide our actions in life and facilitate our success. These signals, which contain this large volume of compressed information, are market prices. Prices function like traffic lights, allowing our creative actions.

Institutions and human interactions based on entrepreneurial knowledge are highly abstract realities and, therefore, the most difficult to understand. Hayek said that the spontaneous order of the market is the most complex phenomenon in the universe, and he is right. It is a process in

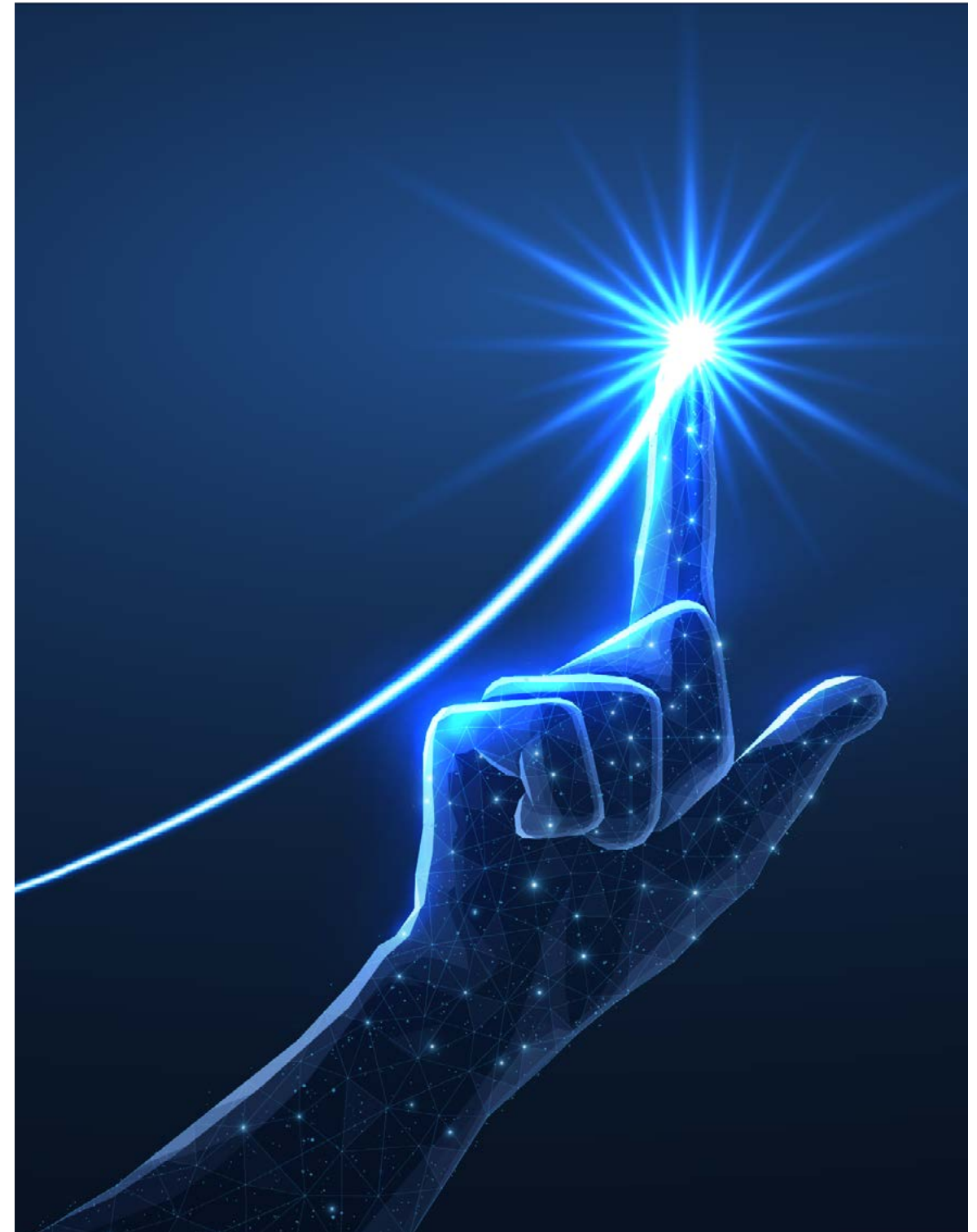
what I teach; not the erroneous economics that most of my colleagues teach. It's curious, don't you think? Science is not democratic. It is either right or wrong, regardless of what the majority thinks. I am right, and the others are wrong. Not all of them, though. I also have colleagues who are right. Besides, I am not a very original person; I simply come from the correct tradition, that of the Austrian School of Economics.

When I studied at Stanford, in the entrepreneurial management program, I did so with a scholarship from the Bank of Spain. They held a competition announcing that they would offer ten scholarships for Higher Studies in Political

**By transmitting entrepreneurial knowledge, we enable another human being to create or understand information that we had discovered ourselves.**

which eight billion human beings interact every day, each of them a universe of creativity. Furthermore, despite appearances, this process is not static but constantly changing. This phenomenon is much more complex than any other phenomenon studied by scientists in the world of physics, however complicated it may be, such as black holes. Incidentally, my youngest son studied fundamental physics and, for his undergraduate thesis, he chose to study information problems related to black holes. He was arrogant in his deification of scientific reason, believing that this was the most difficult thing. I told him, "You are wrong, son." The most difficult things are these abstract realities about entrepreneurial knowledge that I am explaining here. They are so abstract that we can hardly understand them; we only perceive, so to speak, the tip of the iceberg. But if we roll up our sleeves and study economics, we can begin to understand them, at least if we follow the correct economic science, which is

Economy in the United States. They would only consider one criterion: academic record. I submitted mine, it was the best, and I was ranked first. They paid for everything: tuition, accommodation, etc. Every day I went to class with my wife. I was asleep, because my brain has a peculiarity: it doesn't start working until eleven a.m. (so if I had driven, I would have crashed, so my wife drove). Every morning, at the same time, we would stop behind a garbage truck and the workers would get on and off, collecting the bins. And then I saw a sign on the truck that said: "The trash you throw away is what feeds us. Thank you very much." What an appropriate example to explain in class today! The trash that nobody wants, someone collects with joy and hard work. Why? Because nobody wants it, but garbage collectors can do something with it: sell it for a high price, process it, recycle it, turn it into compost, and many other uses. And it's not the government that recycles the garbage.



You've seen it: everywhere, the subcontractors that manage waste. This is something that really amuses me. Haven't you seen those bins that say "glass," "paper," "food," and more? I'm very environmentally conscious, so I put the glass here, the paper there, the batteries somewhere else, and I leave very happy thinking, "Ah, I have done my part. Pope Francis can rest easy because I'm protecting the environment." A thousand times no! Please, anyone who thinks that is wrong. Because even if we did none of that, absolutely nothing would happen. Separating waste at home is useless, except to waste our time. The time we spend separating waste in the kitchen could

be spent on much more productive things: taking care of the kids, earning money, trading on the stock market. So, what do subcontractors do when they collect waste? The first thing they do, with highly sophisticated machines, is to perfectly separate plastic from paper, metals, batteries, and glass. And you can't imagine what a wonderful job those machines do. What's more, even if you have sorted it, they do it again. This means that the effort we make at home is unnecessary double work. And often, when we sort at home, we make mistakes: we throw things away where we shouldn't. It is completely unnecessary. All this is absurd manipulation. Remember: "The trash you throw away is what feeds us. Thank you very much."

This is information transmission. The mere act of entrepreneurship generates information transmission. Human beings are curious, we are always alert, as it were, with our "satellite dish" pointed in the right direction, creating and no-

we see what is being done, in turn, new information emerges. Information about deals that are closed is transmitted in successive waves, as are prices. But these realities are so abstract that if we had to convey every detail of everything that happens, the process would be blocked. Only the minimum necessary to drive and coordinate the process is transmitted. For example, there is a fire ravaging the forests of northern Europe or the Amazon. As a result of the fire, the volume of wood available in the world disappears or is drastically reduced. This generates a series of cascading effects: as a result of the lack of wood, there is not enough to make furniture, therefore, wooden houses cannot be built and it is necessary to opt for alternative systems such as steel or brick, and as a result of this, even wooden pencils have to stop being manufactured.

If all this were organized from above, we would have to fill out thousands and thousands of forms to communicate to millions of people,

in the most diverse corners of the world and on all continents, that they must modify their behavior to adapt to the new circumstances caused by the fire that has led to a great shortage of wood. However, this is not necessary. It is not necessary because the price of wood simply rises. And as the price rises, millions of people, in millions of circumstances and actions, automatically create new actions that take into account the new reality. That signal—the price—communicates knowledge in an extremely compressed way, allowing everyone else to create new actions and adapt their behavior without necessarily knowing the origin or all the implications of

me included in my book *Socialism, Economic Calculation, and Entrepreneurship*, B, who previously squandered his resource R, which he even found repugnant and to which he attached no value, now cultivates, produces, and cherishes it because he knows that there is demand for it in the market and he can store it at a good price; and A, who was frustrated because he could not achieve his long-awaited goal because he needed a resource R that he could not find, can now obtain it and continue with his life plans. This is the third and final effect of any entrepreneurial act: the coordination and adjustment effect which, together with the other two, constitutes the es-

the new situation. Someone might say, "But this disgusts me. How can this chaos not be organized from above and controlled by someone?" Because it is not possible for anyone to control it. It would far exceed the processing capacity and knowledge of any human being, no matter how wise. It does not matter how many computers, artificial intelligence, or technologies are used.

In addition to the two effects we have already discussed—the creation of information and the transmission in successive waves of knowledge about how to obtain resources or achieve ends—there is a third essential effect of entrepreneurial activity: the effect of coordination or adjustment.

As a result of entrepreneurial activity, each of the human beings involved in it learns, in the best way possible, *on their own initiative*, thinking that they are doing so for their own benefit, to discipline their behavior according to the needs of others. Indeed, in our "stick men analysis" sche-

sense of knowledge, perhaps even more important, provided by economic science. It consists of understanding that, through the process of voluntary cooperation, without anyone organizing or coercively imposing it from above, spontaneously and as a consequence of the impetus of creativity and entrepreneurial activity, social order coordinates itself. Or, to put it another way, the almost infinite imbalances and lack of coordination that inevitably arise from the interaction of more than eight billion human beings tend to be discovered, overcome, and coordinated spontaneously as a result of the free creative human actions of those same human beings. In effect, every maladjustment, from the moment it arises, is reflected in a profit opportunity that remains latent to be discovered and exploited entrepreneurially by any human being, a profit opportunity that acts as an inexhaustible and powerful incentive to overcome and coordinate each imbalance, all throughout a social process

**The mere act of doing business generates the transmission of information. Human beings are curious, always alert, noticing opportunities.**

**Prices communicate knowledge in an extremely condensed way, allowing everyone else to adapt their behavior.**

in continuous creative expansion that never stops or runs out.

And so, economics, as the youngest science, comes to the aid of human beings endowed with free will or, rather, created in the image and likeness of God, as free beings; for it explains how there is a spontaneous order in the universe of voluntary social cooperation that puts an end to the tremendous temptation of social ingenuity to extrapolate the technical scheme derived from natural science, which is based on the "coercive" manipulation of the elements of nature, to the incompatible sphere of the social order in which billions of human beings coope-

and manipulable view of the social world and becomes a whole theory of human freedom that shows that social engineering is impossible and that the state, as a coercive institution, is not only unnecessary but also highly disruptive and harmful, as well as essentially immoral, since it is based on violence and coercion against the most intimate attribute of human nature, which is none other than freedom, as I explain in my most recent seminal article entitled *The Cultural War in Economic Science*, where I also explain how a whole series of reactionary pseudoscientific currents have emerged (among which are scientism-positivism, neoclassical economics, Keynesianism, and ma-

**Every imbalance represents a latent profit opportunity waiting to be discovered and exploited commercially by another human being.**

rate, each of them endowed with free will. This apparent and insoluble problem, as we can see, is solved in the light of economic science through the three essential effects of the pure entrepreneurial act that every human being performs when they act.

Finally, this teaching of economics is so revolutionary that it puts an end to our mechanistic

croeconomics, and Marxism) have emerged, rebelling against this essential contribution of economic science. In the service of statisticians and social engineers of all stripes who refuse to relinquish their coercive power over humanity, they continually attempt to discredit and "water down" the teachings and revolutionary message of economic science in favor of freedom.

## 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 presti-

gious 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,

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 objec-

tivist 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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