



Edited by

David Howden · Philipp Bagus

**The Emergence of a
Tradition: Essays in
Honor of Jesús
Huerta de Soto,
Volume II**
Philosophy and Political
Economy

palgrave
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Jesús Huerta de Soto: An Appreciation

David Howden and Philipp Bagus

Most readers know Jesús Huerta de Soto Ballester either as an economist or as a political philosopher. A few will know that he presides over a large insurance company started by his grandfather and that he *only* works as a professor by night. Fewer yet will know Huerta de Soto as a family man,

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with deep faith and conviction for justice.¹ These aspects of his life are outlined in more detail in some of the chapters of these volumes. Personal anecdotes included in the chapters also give the reader an impression of his character and paint a vivid picture of Huerta de Soto's professional, academic, and personal lives.

This Introduction is not about us, the editors of these volumes, but some brief, personal comments will help the reader to understand the wide-reaching effect that Jesús Huerta de Soto Ballester—both the man and the idea—has on those he encounters.

The two editors of this book came to Madrid to study under the tutelage of Jesús. Philipp Bagus was one of the first foreign students to come to study Austrian economics with Jesús, arriving in 2003 on an Erasmus study ticket. He was also his first foreign doctoral student finishing in 2007. David Howden came in 2007 and was Jesús's fifth foreign student.

¹Only a small minority of people, in our experience, know what Jesús's full name is. Due to some idiosyncrasies of Spanish naming conventions, this group is dominated by Spaniards. To aid the non-Spanish speaker, a brief explanation of his name is necessary. All Spanish surnames are composed of two parts. The first part is the father's first surname, and the second is the mother's first surname. The general form for all Spanish names becomes [first name] [paternal first surname] [maternal first surname]. Thus, all children have a different surname than their mothers and fathers, though this surname will include elements of both through their respective paternal branches. The children of Juan García Fernandez and Sofia Gonzalez Martin, for example, would all have the surname García Gonzalez.

Jesús Huerta de Soto Ballester was born to Jesús Huerta Ballester and Concepción de Soto Acuña. His birth name was Jesús Huerta de Soto, and (after marrying Sonsoles Huarte) his children would have the surname Huerta Huarte. With six children, this linguistically challenging surname would have not been an isolated difficulty.

After marriage, Jesús made the decision to legally change the order of his surnames. (This bureaucratic process is not straightforward, nor is it common.) As a result of this change, his first surname, Huerta de Soto, now includes elements of both his father's and his mother's names. His second surname, Ballester, is from his father. While the name remains essentially the same (Jesús Huerta de Soto at birth versus Jesús Huerta de Soto Ballester today), the change in ordering meant that the family name passed down to his children would be "Huerta de Soto" instead of "Huerta." This also applies to their descendants.

In all but the most formal situations in Spain, use of only the first surname is sufficient. Hence, Jesús Huerta de Soto Ballester is commonly referred to only as "Huerta de Soto." Since this is somewhat lengthy, it is often shortened further to "Huerta." The reader will note that over the course of the fifty-two chapters of these two volumes, the authors refer to him with varying degrees of formality as "Jesús," "Huerta," or "Huerta de Soto." On only rare and especially formal occasions is his full surname of Huerta de Soto Ballester invoked.

He was Jesús's first English-speaking student. In addition to Bagus, two Italians, Antonio Zanella and Massimiliano Neri, predated him as did an Argentine, Adrián Ravier.

Our trajectories are important to understand what is, no doubt, a common result of interactions with Jesús. We focus on our non-Spanish origins as an early signal of the international appeal that Jesús has garnered for several decades.

Generally speaking, we both came as anarchocapitalists, "Rothbardians" in the broad sense of the term. We were familiar with the core tenets of Austrian economics before starting our studies. We both studied previously in rigorous mainstream programs (in Germany and Canada). Questions that went unanswered during our studies prompted us to look for alternative economic theory. We both read *Money, Bank Credit, and Economic Cycles* and believed that Jesús was one of the few men who could not just understand real economic problems but also impart that wisdom. Finally, and most importantly for this introduction, we both believed firmly that free markets were the necessary and sufficient condition for a harmonious and prosperous civilization.

Economics was, to us upon arrival, a rather closed system. Its corpus of theory was able to explain how society worked, both for better and for worse. If one wished to make his positive imprint on the world, he only needed to be proficient in this science and apply its conclusions faithfully. The focus on the workings of a market economy, we believe, applies to the majority of young anarchocapitalists, at least outside of Spain. This common position can be best summarized as a belief that economic science is a closed system, and that free markets are a sufficient and necessary condition for a prosperous civilization. If gold is not a barbarous relic to many young Austrian economists, the concepts of religion, family, and morality very often are. Even though we had a basic understanding of the importance of ethics, we had not come to a full appreciation of the significance of many spontaneously evolved institutions such as religion, the family, or morality. We did not fully grasp the importance of these institutions, believing that free markets would largely be enough for a free society to function smoothly.

Today, and through the influence of Jesús, we both count ourselves among the converted. We use this term not narrowly in the religious sense

(although that too is true) but in the general sense that we realize that free markets are a necessary but not sufficient condition of a prosperous society. A moral code imparted by something greater than man must guide his actions. Certain institutions, some religious, others secular, are necessary to transmit this morality over generations. Economics has little to say about such topics, though the economist must use these concepts in conjunction with his theories to gain a full understanding of the world that is, and that which could be.

We submit that our own conversion along these lines was not accidental. It was the direct result of Jesús. Other students of his will no doubt nod in agreement when they consider their own intellectual trajectories. This affect was not the result of any purposeful proselytizing on the part of Jesús. It was the result of the consistent and continual application of his belief structure to every aspect of his classes and seminars. The change in our approach to economic problems resulted from Jesús's rigorous and logical approach to economic theory that underscored the need for economics to not be treated as a closed system. Jesús defends a multidisciplinary approach not only in his writings, but he also persistently emphasizes the role of the ancillary sciences in understanding economic phenomenon in his classes and seminars. Finally, he does so, not just in the classroom but also in his life. This consistency and devotion to an ideal, not just a way to learn but to live, is what most students will remember him for.

With this background on the effect of his influence, let's move on to the causes. What is it about the belief structure and approach to economic analysis that has earned Huerta de Soto the respect of his peers?

Huerta de Soto is best known for three books. The first, *Socialism, Economic Calculation, and Entrepreneurship*, was first published in Spanish in 1992 and translated into English in 2010. In this work, Huerta de Soto builds off Kirzner's theory of entrepreneurship and synthesizes it with Mises's and Hayek's critiques of socialism. While one goal is to synthesize various strands of work surrounding the impossibility of calculation under socialism, Huerta de Soto expands our understanding of entrepreneurship by focusing on the knowledge creation process.

The Theory of Dynamic Efficiency was published in English in 2009 but built off his introductory journal article of the same name in the inaugural issue of *Procesos de Mercado* in 2004. In this collection of essays, Huerta de

Soto made available for the first time his broad scholarship on a variety of subjects to the English-speaking world in one collection. He also expanded on the themes of entrepreneurship and institutions to emphasize why the economy cannot be judged, even theoretically, in static terms.

Huerta de Soto's greatest fame, at least in the English-speaking world, came a few years earlier following the 2006 translation of his tome *Money, Bank Credit, and Economic Cycles*. Originally published in Spanish in 1998, this book manifesting the multidisciplinary approach of its author takes the reader through a history, both theoretical and applied, of banking law. By showing the fractional-reserve demand deposit to be a legal aberration, Huerta de Soto is then able to move on to the business cycle to flush out the full implications of a banking system allowed to create money substitutes *ex nihilo*. Many consider this book to be the most fully developed and comprehensive look at the Austrian theory of the business cycle. For the student of Huerta de Soto, the book is the natural progression stemming from his general theory of government intervention and its effect on entrepreneurship as outlined in *Socialism, Economic Calculation, and Entrepreneurship*. Here the specific intervention is in the legal regime narrowly governing bank deposits. The effects, however, are more general: skewed entrepreneurial actions permeating the economy which lead to a business cycle.

Augmenting these three core works are dozens of articles and other books, as well as hundreds of notes. In all of these works, several central ideas are shared. Ethics joins economic theory and history as a complete whole. As to methodology, Huerta de Soto follows Mises and Rothbard in the tradition of praxeology. An emphasis on an evolutionary approach, inherited from Menger and Hayek, underscores each contribution. Finally, a synthesis of ideas not commonly united is always undertaken. Many times, this synthesis involves joining together the utilitarian approach championed by Mises, the Hayekian, and Mengerian evolutionary focus, and the natural law approach of Rothbard. The synthesis between evolution and natural law is especially novel. Jesús argues that human nature, and by extension natural law, manifests itself evolutionarily, that is, natural law is discovered as an ongoing process. Differences are set aside, and the reader is able to see the strands and ideas common to the three approaches: theory, evolutionary history, and ethics. As Jesús likes to point out, if all three approaches point you in one direction, you can be rather sure that your conclusions are correct.

An undercurrent of legal analysis unites most of his work. This is most apparent in *Money, Bank Credit, and Economic Cycles*, since in this work a conflation of legal norms and obligations sets in motion the business cycle. This legal foundation was spurred on within Huerta de Soto as early as his undergraduate studies at the Complutense University of Madrid and later with his first doctoral degree (in law). This initial spark was ignited further by Rothbard's contributions that centered on the ethical foundations of libertarianism. In many ways, Rothbard's ethical foundations are grounded in law.

The influence of Bruno Leoni is never far from Huerta de Soto's reader. Reading *Freedom and the Law* brought, for a young Huerta de Soto, the role of law into full perspective. The natural progression and evolution of legal systems, from Roman to Scholastic, brings the reader to understand how law cannot be analyzed in a vacuum. It must be considered in light of the needs and forces that shaped it in the past. Similarly, the effect of the legal system on economic outcomes can also not be taken for granted. Nor can an analysis of the economic system be separated from that of the legal system without difficulty. The economic and legal systems act as two sides of the same coin, with one side setting the rules of the game, and the other determining the outcome.

If readers of Huerta de Soto see the profound importance he places on the legal system in his works, they also notice that he is a system builder. Fitting different pieces of the puzzle together to make a comprehensive whole is a defining characteristic of all of Huerta de Soto's major works. This is apparent in the ill effects of socialism on the informational role of entrepreneurship in *Socialism, Economic Calculation, and Entrepreneurship*. It is also the major contribution of the legal analysis underscoring the business cycle in *Money, Bank Credit, and Economic Cycles*.

Huerta de Soto's analyses often start from a position that the reader has difficulty understanding the importance of. (What could Roman law possibly have to do with the business cycle?) By the end of his works, the reader is left with a feeling that it could not otherwise have been the case. The clear connection that he makes between seemingly disparate and unrelated topics is a hallmark of his analysis. This applies equally well to his work in economics, political theory, and ethics.

If the reader of his works understands Huerta de Soto as a collector of odd ideas, his students have an even more direct experience. His graduate seminar would often include tangents on topics or readings that seemed to

have no bearing on the subject matter. It was only through careful study that the class was able to put the pieces of the puzzle together and see the whole of the argument.

Despite the ancillary ideas that he uses to form his principal arguments, there is an obvious core that anchors Huerta de Soto's work. It is obvious, both in speaking with him and in studying his works, who the greatest economist of all time is and who serves as his principal source of inspiration: Ludwig von Mises. Without Mises none of Huerta de Soto's other, more direct, forebears would have been possible. These include Murray Rothbard, and also Friedrich Hayek and Israel Kirzner.

We asked Huerta de Soto once what he considers to be his greatest contribution. Not surprisingly, he pointed to his work as a synthesizer of ideas. His works are united as a grand attempt to bring theories together and to make a whole that is greater than its parts. Surprisingly, however, he modestly offered that he has difficulty pinpointing which ideas are his and which are already embedded in Mises, Rothbard, and Hayek. Huerta de Soto does not consider his work to be overly original in the sense that no one previously alluded to the ideas. But then, he also believes that one should not be too original. Better to build gradually on the shoulders of giants than to throw caution to the wind and make a tragic mistake.

As one progresses through their career a reflection on any mistakes gains importance. Notwithstanding Friedman's view on Mises as a radical, the Austrian's own reflection of his past failings was that he was not radical enough. Huerta de Soto believes this to be the greatest mistake his fellow travelers have made, though not one that he personally committed. Reflecting on his past, maybe he committed the sin of being too proud early in his career. But arrogance is not necessarily an error, it's just part of being young. As one matures, he sees himself within the context of his forebears, an extension of their intellectual contributions.

Enough of Huerta de Soto, the economist. What of Huerta de Soto, the man?

The first impression one gets when meeting him is that he is in the presence of a true Spaniard. For in many ways, Huerta de Soto is the epitome of the Spanish man. A man who lunches late (3 p.m.) and dines later (no earlier than 10 p.m.). One who never misses his siesta. His loosely knotted Lester tie always carries a pattern seen on many a man inside the country, but one that few foreigners embrace. His overly aspirated "d" when he speaks Spanish and a throaty "h" in English are the hallmarks of a Spanish

man of a certain standing. Huerta de Soto, like all true Spaniards, understands the elegance of simplicity in cuisine. (Eggs and potatoes might not sound like much to the uninitiated, but in the Spanish tortilla they tantalize the taste buds.) If our esteemed professor prefers a German car (don't let the gold fool you) for himself and a British education for his children, the reader should not be fooled. So too are these the qualities of the discerning Spaniard.

After questioning him what he thinks his own great contribution is, it is only natural to question Huerta de Soto on what he feels is Spain's great contribution to the world. Without hesitation the answer comes: Don Quijote.

The Knight of La Mancha is ostensibly about an aging knight who, on his noble nag and with his farmer *cum* squire Sancho Panza, tilts at windmills. Whether the enemies of his scorn are real or imagined matters not. For Don Quijote the important part is to wake up each morning, dust himself off, and get back on his steed to fight again.

Channeling Don Quijote, Huerta de Soto is fond of saying that “No importa que sean gigantes o molinos si el penacho de nuestra fimerá se mueve a los vientos de la tenacidad y de la fe.” In English this loosely translates to “It doesn't matter whether they are giants or windmills so long as the feather in our helmet moves towards the winds of tenacity and faith.”

What Jesús expresses here is that what really matters is to get up in the morning and fight for truth and liberty independent of the result. The result may come, but it is secondary to the fight. Ideas matter because they change the world we have. But ideas also matter because they drive us to create a better world. It is this idealism that fuels Jesús's powerful and infectious enthusiasm.

To do everything with enthusiasm is the first of his famous ten rules for success in life. His principles of economics course traditionally culminates with this lecture given on the last class of the academic year. It is one of the many highlights in his course.² As with his other lectures, which are

²Throwing fistfuls, literal fistfuls, of euro notes in the air to illustrate the non-neutral effects of monetary policy is a leading contender for the most memorable moment. Watching students scramble to see at whose feet the thousands of euros will end up makes clear the winners and losers of central bank actions. We can only speculate that Jesús learned this “trick” from his father's theatre antics subversive to the Franco dictatorship, as detailed in our biography of the professor in this book's companion volume.

available in several languages, this closing lecture is wildly popular on the internet, having received hundreds of thousands of views. Jesús explains that enthusiasm comes from the Greek word *enthousiasmos* meaning inspired by God.³ And this he truly is. He lives this enthusiasm at all moments and breathes it into those in his presence: the infectious nature of his enthusiasm transmits his energy to his students. His lectures not only educate about economics and the social sciences, but also uplift and recharge the audience.⁴

Jesús's unique enthusiasm and his generosity have also helped him to achieve something that not many academics can claim: he has built a school.⁵ But if there is a class of economists that consider themselves "Huertians," it was not by any conscious effort on his part. By expounding sound principles, and living an honest life, Huerta de Soto has infused the ideas of his own masters with his particular flavor in the minds of his disciples. This school is truly the result of human action but not of human design.

This distinct school, an approach to economics, is Jesús's greatest achievement and will be his legacy. Huerta de Soto has sowed the seeds of a Spanish school of Austrian economics and libertarianism for many years. With patience and constancy, another recommendation from his ten rules for a successful life, he has sown these ideas in many areas over the past decades. The seeds are bearing fruits. And they will bear fruits for years to come.

³ Even the negligent reader of Huerta de Soto's works will notice his affinity for etymology as a starting point to understand the inherent nature of certain concepts.

⁴ Briefly, the other nine rules of life are (1) be constant and patient, (2) always be the best you, (3) don't worry, (4) learn another language (English if it is not your native tongue), (5) be aware of the world around you, (6) find balance in your professional, spiritual, and familiar obligations, (7) be entrepreneurial, (8) be critical, and (9) behave well in all areas of your life, and improve on yourself by learning from your mistakes. The underlying focus of these ten rules is to lead a successful life pursuing ethically beneficial goals. Of course, in all self-help literature the definition of "success" is contentious, and advice more often than not begs the question of how best to define one's success. Huerta de Soto defines the term in the most straightforward manner: "to be successful in life is to be happy."

⁵ Everyone who knows Jesús will testify to his modesty and generosity. Not in vain, many contributors to these volumes wanted to tell several anecdotes at length about his personal warmth and support for them. Due to space constraints, the editors found themselves in the unenviable position as gatekeepers balancing the book's physical constraints against the earnest wishes of its contributors.

There are many paths through which Jesús promotes Austrian economics and libertarianism. First and most obvious, there are his classes, his lectures, his articles, and his books that have provided input and inspiration to thousands of students and followers. Second, his publishing activities with Unión Editorial have made available Austrian and libertarian classics in the Spanish language and have brought new publications to the market. Third, Jesús has even ventured into the media sector by financing movies and documentaries, spreading the truth about economics and politics. Fourth, by organizing the annual Madrid conference on Austrian Economics since 2017, and by publishing the journal *Procesos de Mercado: Revista Europea de Economía Política* since 2004 he has been essential for promoting Austrian Economics within the academic circles of Europe and beyond. Fifth, thanks to his initiative and leadership, Madrid hosts the first official, that is, government and European Union approved, Master's degree in Austrian Economics worldwide connected to a thriving PhD program. Finally, we should not forget his support in many ways to libertarian political parties and think tanks.

By getting up every morning just as Quijote to fight idealistically for truth, he has attracted students from around the world to Madrid and he has inspired generations. The fruits of his labor are ripe. This Festschrift is a testament to these efforts as many of these contributors have collaborated with Jesús in these initiatives just mentioned.

As a result of all his endeavors, it is no exaggeration to claim that there is a Madrid school of Austrian Economics and that the Spanish capital is one of the most thriving center of Austrian economics worldwide. And this school, built as it is on a foundation of Jesús's works, is going to thrive in the future. His pupils occupy positions in the traditional media, write in newspapers, speak on the radio and television, and command a heavy presence on social media. They go on to form new generations of Austrian economists as university professors. They occupy leading positions in political parties and in numerous think tanks. The enthusiasm and perseverance of one man set in motion a movement that took the world by storm. As for any doubts about the movement's ability to maintain its momentum, we need to look no farther than Jesús's call to model ourselves after Don Quijote: awaken each morning to fight with enthusiasm and idealism for the truth.

For Huerta de Soto, the fight has oftentimes been against those not radical enough. Friedman felt Mises and Hayek were too radical. If Mises famously stormed out of a Mont Pèlerin Society meeting while calling the members “a bunch of socialists,” Huerta de Soto has shown restraint when faced with similar resistance. Along with Friedman, Chicago School economists like George Stigler cautiously backed away from taking the ideals of capitalism to their full conclusion. While presenting his thesis on 100% reserves to the Society at its 1993 meeting in Rio de Janeiro, Huerta de Soto was cut off by the discussant and told to return to his seat. If the experience was humiliating, it only served to motivate him further. After all, what would have become of Don Quijote if he did not defend his nag against the goat herders? Falling is our natural state. What makes us men is getting back up and trying again.

If Huerta de Soto is Spanish, the most endearing quality is his fervent Catholicism. What else to expect from a man who lists the greatest knowledge man ever learned was that “God exists.” After all, what a terrifying existence we would be fated to without such a realization. But if he serves in the ranks of the faithful Catholics, his role is as a frontline private, not a general. For Huerta de Soto’s role on the front lines, the strategy is to live by example. And to show those with weaker convictions that faith and reason are just two sides of the same coin. What else could the lesson be from Pope Benedict XVI’s encyclical *Deus caritas est*? Any application of reason must accept the reasonableness of faith. And the corollary to this is no less important. An application of faith must accept the reasonableness of God. One needs faculties, faith, and reason, to understand the world and his place within it. His deep faith does not conflict with his libertarian beliefs. Indeed, it reinforces his academic endeavors and compels him to unearth new truths: In his speech “God and Anarchocapitalism” he convincingly argues that God is a libertarian.

G. L. S. Shackle famously noted:

To be a complete economist, a man need only be a mathematician, a philosopher, a psychologist, an anthropologist, a historian, a geographer, and a student of politics; a master of prose exposition; a man of the world with the experience of practical business and finance, an understanding of the problems of administration, and a good knowledge of four or five languages. All this in addition, of course, to familiarity with the economics literature itself.

Similarly, Ludwig von Mises ended *Human Action* with a call to arms for the economist:

The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race.

Jesús Huerta de Soto is an economist in the full sense demanded by Shackle.⁶ In fact, he is a true polymath in the Renaissance tradition. His use of economic theory as the central core of his life's work, augmented by legal theory, political philosophy, and moral underpinnings, makes the fruits of his labor well-positioned to create a better society. His work points the way to the flourishing of civilization that is meant to be.

Jesús Huerta de Soto has profoundly shaped our lives. No doubt, he has had a similar effect on many readers of these volumes. These two volumes are a testament to his academic rigor and his erudition in research. But most of all, these chapters are a testament to his infectious joy in heralding the strength of the market, and its importance in creating a harmonious society.

⁶In his review of *Money, Bank Credit, and Economic Cycles*, Larry Sechrest complains that Jesús's knowledge and use of foreign language sources, including English, Latin, Spanish, Italian, and French, although erudite and creditworthy, make some arguments difficult to confirm.



With his father, Jesús Huerta Ballester, in 1973. The elder Jesús imprinted on the younger the power of civil disobedience, and of staying firm to one's convictions. A late-night meeting with his father's friend from the Spanish Marine Corps, José Ramón Canosa, introduced the pair to the liberal circle organized by the Reig brothers, Joaquin and Luis. Still a teenager, Jesús would be the youngest member of the circle. His father was a consistent figure at the meetings, serving also as chauffeur to the young Jesús



With his mother, Concepción de Soto Acuña, circa 1985. Remembered as a positive, upbeat attitude, she was no doubt the origin of Jesús's own unbridled enthusiasm. The family library overflowed by her hands, imprinting on a young Jesús the importance of reading. His noted erudition on many topics is the result of her tutelage. Never one to shy from a challenge and at the request of his maternal grandfather, Jesús changed the ordering of his surname after marriage to include mother's first surname, de Soto, as part of his own first surname. The bureaucratic nightmare of such a procedure in Spain is not to be underestimated



With Sonsoles, what some might call his own “indispensable framework,” around 1981. Young Jesús turned down offers from Berkeley and Wharton to follow his future wife to Stanford, to study at the Graduate School of Business for two years. While in the United States, Jesús met and befriended Hayek and Rothbard. The appearance of a funny young Spaniard, able to cite passages from their collected works, impressed deeply on both economists. Rothbard gifted Jesús an early manuscript of his upcoming book, *The Ethics of Liberty*



“By their fruits you shall know them. Do men gather grapes of thorns, or figs of thistles? Even so every good tree bringeth forth good fruit” (Matthew 7: 16). Jesús with the fruits of Sonsoles’s and his labor in 2000. Some familiar names abound: from the left, Juan, Silvia, Constanza, Jesús (the elder), Jesús (the younger), Sonsoles (the younger), and Santiago



Society as a Creativity Process

Javier Aranzadi

In the explanation of the economic phenomenon as action, the concept of entrepreneurship is not limited to a certain group of persons. It acquires the character of the function that *every person* makes, when acting. The field of application of pure entrepreneurship is the totality of reality that surrounds human being. Anything that arouses the attention of the person can be converted into a suggestive possibility and become an attractive project. This human capacity is the element that makes it possible to concentrate on a fundamental social aspect: the social interrelations that fashion society. Thus, if we concentrate on the action we can define society, following Jesús Huerta de Soto as:

A process (that is to say, a dynamic structure) of a spontaneous sort, that is to say, not consciously designed by anybody; it is very complex as it is made up of thousands of millions of people, of objectives, likes, valuations and practical knowledge; of human interactions, (which are basically relations of exchange and which on many occasions take the form of monetary prices) and are always brought about, in accordance with some norms, habits, or

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patterns of conduct, all of these being moved by *the force of the entrepreneurial function*, which constantly creates, discovers, and transmits information, adapting and coordinating competitively the contradictory plans of the individuals. (Huerta de Soto, 1992: 84)

Seizing on such a rich definition we can tease out the following points:

1. If we concentrate on society as a process, we confront the problem of the transmission of information. We will pose the problem of knowledge that every society must resolve for its correct functioning. If we start from individual action, we find that each member has at his disposition exclusive and scattered information, which refers us to the role played by culture in the triad society-culture-individual action. This widespread information, which is transmitted culturally, allows us to understand culture as the enormous precipitate of possibilities of action that past generations pass on to the future generations. We will deal this problem in a later section, “Private and Dispersed Knowledge”.
2. As the definition indicates, the social interrelations are affected in accordance with some norms or patterns of behaviour. That is to say, the coordination of the expectations of thousands of people is only possible within a standardized institutional framework, that is, the relation that exists between an individual’s action and each person’s value judgements. We can establish this relation on two levels: on a general level, we can propose the study of ethics as part of a system of philosophical anthropology (Aranzadi, 2011). However, this proposal goes beyond the limits of this study, in which we concentrate on a more concrete relation: this is the importance of moral norms for the functioning of the market. It concentrates on the fundamental problem that every social-cultural framework has to resolve: how to permit the development of the persons who live in it. In the section entitled “Tacit Knowledge” we will deal with the broader problem of society: *coordination among people*.

INFORMATION

The characteristics of information

Information that is managed in the project has its own series of particular characteristics: the information is practical, private, tacit and transmissible.¹

¹The scheme, which I use for analysing, is based on Huerta de Soto (1992, Chap. 2).

Subjective Knowledge of a Practical, Non-scientific Type

This is the type of information that the person acquires through practice. In Hayek's words: "there exists a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules: the knowledge of the particular circumstances of time and place" (Hayek, 1937: 80). The important knowledge for the human agent is not, therefore, the objective and atemporal knowledge that is formulated in physical laws. This body of knowledge, that we call scientific, can provide us with very little when it comes to our desires and our volitions. To act we will have to base ourselves on the particular perceptions concerned with concrete human valuations, both as regards the ends that the person wants to attain, and her knowledge about the ends that she believes the other people want to attain.

Private and Dispersed Knowledge

Every person who acts does so in a personal way, as she tries to obtain some ends in accordance with a view and a knowledge of the world that only she knows in all its wealth and with its variety of nuances. Therefore, the knowledge to which we are referring is not something that is given, that can be found at the disposition of everybody on an equal basis. This knowledge is a precipitate that the person has in her memory. All past events are kept in her memory as recollections. Mises makes a brief reference to memory in *Human Action*. He considers that memory is "a phenomenon of consciousness and as such conditioned by *a priori* logic" (Mises, 1996: 35). This reference directs us to the true importance of memory in the theory of action.

Memory is a dynamic system. It constitutes the personal and untransferable access to reality. All the information is managed from the memory. All knowledge of access to reality depends on the meaning that the memory gives to reality. Each person builds her structure of means and ends from the information that she manages from her memory. Neither the memory nor the world is static. Human being is a being-in-the-world. She lives in reality made conscious. What is perceived at the moment is integrated with what is remembered. These are the limits of consciousness: the perceived and the remembered. Knowledge does not constitute a storeroom where pieces of knowledge are piled up. Memory is active; it offers the ways of approaching reality. In short, to remember is to carry

out the act that places a piece of information in a conscious state. Remembering a piece of information settled in the memory brings its sense up to date. In the action, the past sense of the information is questioned: it is interrogated to see if it really has sense in the here and now of the activity. Memory is creative, not only because it is a dynamic system but because it is handled within a project and manages the possibility.

Tacit Knowledge

Saying that information is tacit is stressing its dynamic character. Information appears in the memory in integrated blocks, which assimilate reality. The assimilation is produced by selection from among an enormous amount of information. Here we are facing a ticklish problem, why do we consider a thing attractive? How can we perceive of something that does not exist yet? Tacit knowledge functions like a gigantic anticipatory system. Even the most highly formalized scientific knowledge is always the result of an intuition or an act of creation, which is none other than manifestations of tacit knowledge. The basis of all scientific research is surprise. Surprise as defined by J. A. Marina, “is the feeling produced by the inadequacy of what is perceived with what is expected” (Marina, 1993: 144). J. A. Marina cites the work of A. C. S. Peirce, a researcher intrigued by the singular instinct for guessing that human being possesses. The number of hypotheses that can be managed in a scientific study is infinite. It is unheard of how absolutely correct hypotheses are chosen. This author is forced to admit the existence of a type of instinct, which puts a limit on the number of admissible hypotheses, and this instinct is manifested as a feeling.²

Each person’s tacit and private information depends on her experience. However perfect our theoretical knowledge is, the perfection necessary to learn to do a job successfully occupies a lot of our time. Not only is this theoretical training necessary for us but also what is of incalculable value is the knowledge that we obtain about the other people’s way of life, the particularities of each region and of all those circumstances that Hayek calls “knowledge of space and time”.

² On this particular subject Professor Huerta de Soto adds: “this same idea was expounded quite a few years ago, by Gregorio Marañón: he told of a private conversation he had with Bergson, a short time before his death, when the French thinker confessed the following: ‘I am sure that the great discoveries of Cajal were no more than objective verifications of the facts that he had foreseen in his brain, as true realities’” (Huerta de Soto, 1992: note 26, p. 59).

Transmissible Knowledge

Although it is tacit, information is also communicable. It is communicated by means of social interrelations (cf. Huerta de Soto, 1992: 60). I will follow Aranzadi (2006, Chap. 4) solution to “knowledge problems” posed by I. Kirzner (1992: 179; 2000: 264–265) to extend the scope of application of entrepreneurship to all reality. We are going to take another brief look at the solution I proposed because it is intimately connected with the form of transmitting the practical, private and tacit information, which constitutes the temporal structure of the project. “Knowledge problem A” proposed the stability of the social institutions and the “B” proposed the way of guaranteeing the results of entrepreneurship for each person. These problems are proposed in the following manner: every action starts from a socio-cultural framework (problem A). But in its turn, every socio-cultural framework is transformed by individual actions (problem B). The solution I offered was based on demonstrating the very close connection that exists between both problems: an institutional framework is necessary (to solve problem “A”) so that entrepreneurship can be exercised (to solve problem “B”). But the reverse is also true: that entrepreneurship can be exercised (to solve problem “B”) and it institutionalizes the people’s expectations (to solve problem “A”). We concluded by stating in Chap. 4 (Aranzadi, 2006) that in Kirzner’s terminology, the solution to knowledge problem “A” demanded the previous solution to the problem “B”.

We are going to pose both problems again, focusing on the information: if we start from problem “A” that is to say, from the stabilization of the social institutions, we recognize that through culture each person receives the tradition of her society. What are received are the possibilities of life that have served in the past and that the preceding generations hand down to their descendants. These ways of life are a precipitate of responses that society offers to the new generations. We recognize that this accumulation of knowledge, which constitutes “knowledge problem A”, is practical, private and tacit information that is passed on. Through this process of social interrelations, the person receives information about norms, habits and behaviour, which are summaries of the responses used in the past for resolving daily problems. All this knowledge, which the person receives in the course of her mutual relations, settles in her memory.

However, we have already seen that remembering is updating the sense that the received information possesses. Each person wonders if this information is useful to her, here and now for undertaking her projects. This