

The Austro-Libertarian Point of View

Alan G. Futerma • Walter E. Block

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Essays on Austrian Economics
and Libertarianism

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Alan G. Futerman
Department of Economics
University of the Latin American
Educational Center
Rosario, Santa Fe, Argentina

Walter E. Block
Harold E. Wirth Eminent Scholar Endowed
Chair and Professor of Economics, College
of Business
Loyola University New Orleans
New Orleans, LA, USA

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*This book is dedicated to Ludwig Von Mises
and Murray N. Rothbard*

Foreword

Suppose you are the sort of economist whom in their fine book Alan Futerman and Walter Block and all the wide world these days would call “neoclassical.” That is, suppose you are an orthodox economist of the British and especially the post-War American sort, now spread around the world. If so, you need to read and consider this book of “Austrian” economics, because you have spent decades *not* reading and considering what the Austrians are saying, and have made a scientific mistake.

Yet the truth is that the wide world’s definition of “neoclassical” here is misleading. (Futerman and Block use the word in the misleading if commonplace sense some fifty times.) “Neoclassical” properly understood, as Futerman and Block do deeply understand, refers to the Marginal Revolution in economic thinking during the 1870s. In a spectacular case of simultaneous discovery in science, on the order of Newton-Leibnitz or Darwin-Wallace, the new thinking was discovered independently by William Stanley Jevons (1835–1882) for English speakers, by Leon Walras (1834–1910) for French speakers, and by Carl Menger (1840–1921) for German speakers. And Menger was, after all, the founder of the Austrian School.

The Revolution overturned the rigid, average-cost, already-given “structure” characteristic of the Classical economics of David Ricardo—and nowadays characteristic of neo-Marxists such as Thomas Piketty or Marianna Mazzucato. The “minor Ricardian” Karl Marx died in 1883, a decade after the Revolution. But like his followers since then he refused to learn from the neoclassicals such as Menger. I do wish the neo-Marxists nowadays, some of whom are my dear friends, would learn the core of Economics 101, that is, neoclassical and especially Austrian economics. But, following The Master, with rare exceptions (Burczak 2006), they don’t.

The revolutionaries of the 1870s put at the center of their analysis not the given social structures of the Classics but “choice at the margin,” which is why such economics is also called “marginalism.” Harriet chooses whether or not to buy a little more (a “marginal” amount of) coffee, or to supply a little more labor. She keeps on choosing until the increment of happiness she gets from the marginal unit has declined (according to the core law of diminishing marginal utility, the fourth cup of coffee gives less pleasure than the first) to meet the rising marginal

opportunity cost of acquiring it. Then she stops. Harriet will have maximized her pleasure net of the pleasure from whatever else she could have done. Hurrah!

As Futerman and Block put it, following their master Ludwig von Mises' axiom of action, "the contention [is] that every acting man [and woman, dears] is eager to substitute a more satisfactory state of affairs for a less desired one." Harriet's choice, interacting with Tom's and Dick's, though it is no part of their intentions, imparts a spontaneous structure to the economy—not rigid and given and predictable, but emergent. Hurrah again: self-interest yields riches for us all.

The Austrians *are* such neoclassicals. You, the orthodox economist whom Futerman and Block steadily criticize in the book, are better therefore called "Samuelsonian." The amiable Paul Anthony Samuelson (1915–2009) created the orthodoxy in economics, the sort I myself was trained in and practiced for decades, before gradually seeing the Austrian heterodox light. The orthodox economists, it must be said, were fortunate that Samuelson (who in case you need to know was for a long time my mother's mixed doubles tennis partner in league tennis in Boston) was our very own Blindingly Intelligent MIT Leader. Linguistics, which shares interesting parallels with economics, such as the spontaneous order emergent from individual human actions, also had such a leader at MIT. Too bad for the linguists: he was the decidedly non-amiable Noam Chomsky (b. 1928; I'll bet he didn't play tennis), who has ruined the field.

Samuelson was open at least to logic, if not so much to evidence, and so he treated with respect if not agreement that Marxian one among the three streams of economic thinking. But, following our leader, we Samuelsonians tried to ignore the third stream flowing from the specifically Austrian highlands of neoclassical economics, in Menger, Mises, Hayek, Lachmann, Kirzner, Rothbard, Lavoie, Boettke, Rizzo, Klein, Tucker, Boudreaux, and in Futerman and Block.

The Samuelsonian economist, being mainly in charge of modern economics worldwide, is prideful. Pride is a grave sin in science, because it closes the ears to logic and evidence. As the novelist and philosopher Iris Murdoch wrote in 1967, its opposite, humility, "is not a peculiar habit of self-effacement, rather like having an inaudible voice. It is selfless respect for reality and one of the most difficult and central of all virtues" (Murdoch 1967 [1970], p. 95; cf. McCloskey 2006). To be a good economic scientist, as to be a good novelist or philosopher, one must listen intently. But the proud, non-humble Samuelsonian is already an expert, and so she won't listen. An expert, said the American president Harry Truman, doesn't want to listen to anything new, because then she wouldn't be an expert. Nor does she want to relinquish the rewards in academic bishoprics and political power that the orthodox acquire.

I confess that I acted just like that for decades, until awakened from my dogmatic slumbers by Don Lavoie, Donald Boudreaux, and Walter Block. Now Futerman and Block here lucidly explain Austrian economics, and then apply it to various matters of policy, from the minimum wage to hyperinflation. No excuses, you Samuelsonian. Get to reading.

I admit that I do not agree with every single sentence in the book, though agreeing mostly on matters of policy. Frankly, I think Austrians create pointless

opposition to their scientific and policy ideas by insisting fiercely on what seem to me unnecessary claims about epistemology. For example, the Austrian economist who is now emeritus at the University of Nevada, Hans Hermann Hoppe, regularly attacks his natural allies because they do not agree with his apriorism. So here, minus the authoritarian tendencies of Hoppe, Futerman and Block explain that Mises was a Kantian in believing in the synthetic a priori. We followers rather of the empirical Scots of the eighteenth century, Hume and Smith, do not.

On the other hand, I have come to agree with Futerman and Block in favor of “methodological dualism,” which argues that a slavish imitation of what they believe is the character of physical science—the impulse leading Samuelsonians so far astray—does not suffice for social science. Mises, though, erroneously claimed that social science was different because it was not experimental. Such a definition would exclude evolutionary biology or most of geology from the physical sciences. The actual difference is that humans speak, even if only to themselves, and make projects of human action together or apart. The Austrian economist Fritz Machlup asked early in the 1940s what physics would look like if atoms could ... speak to each other, or themselves make plans with their liberty of the will. His question remains a powerful Austrian challenge to the Samuelsonian and Marxist projects.

I would suggest the next step for Austrian economics—something that the other hero of the book, Murray Rothbard, scornfully opposed, but that is at least implicit in Hayek and Lachmann and Kirzner and their students—should be taking human speech seriously, in what has been called “humanomics” (Smith and Wilson 2019; McCloskey 2021).

Futerman and Block say that their book is not a manual, which I suppose it is not. But it is a collection of highly pertinent essays, from which you can understand what is mistaken in the orthodoxy of economics, law, and politics. The central term of art in Austrian economics is that phrase “human action.” It is the exercise of human will, not the blind bumping of one molecule against another or one organism against another, as in the physical sciences. Samuelsonian economics at the individual, marginal level and Marxist economics at the aggregate, class level are concerned exclusively with *re*-action in the style of physical science. Their actors have no liberty of the will, to put it in theological terms (McCloskey 2021). They don’t speak and reflect and plan. They *re*-spond to mechanically given conditions of utility or the relations of production.

Futerman and Block distinguish Austrian economics as a scientific enterprise based on liberty of the will from “libertarianism” as an advocacy based on policies implied by such liberty. “Although Austrian economics is positive and libertarianism is normative,” they write, “this book shows how both are related; how each can support the other.” Indeed, they do.

§

Let me explain in my own humanomical way how Austrian emphasis on human action overturns Samuelson. Mises spoke on action: “Man is in a position to act because he has the ability to discover causal relations which determine change and becoming in the universe. Acting requires and presupposes the category of

causality” (Mises (1949 [1998], p. 22). My point, with which I think Futerma and Block would agree, is that Samuelsonians and Marxists are terminally confused about causal relations.

The great philosopher, historian and archaeologist R. G. Collingwood explained long ago, in a passage that could just as well have come from Mises or Hayek, that “the historian ... is investigating not mere events (where by a mere event I mean one which has only an outside and no inside) but actions, and an action is the unity of the outside and the inside of an event” (Collingwood 1950 [1993], pp. 214–215; my italics).

Collingwood, you see, is using “action” as the Austrians do. A mere “event” is his term for merely physical happenings, observable in positivist/Samuelsonian style from the outside. He gives the example of Caesar crossing the Rubicon. The physical action of the crossing of the river was an “event” in a behavioral sense. But its purpose was the purposeful violation of Roman law, and its meaning depended on the ability to discover causal relations, in this case an intentional act towards the fall of Roman Republic—an action rather than an outwardly observed *reaction* to stimulus. The man in orthodox Samuelsonian economics, a sociopathic fellow known as Mr. Max U, is external in this way. The analyst is forbidden in behaviorist dogma to know *why* Caesar did it—or at best would reduce his action to a cost/benefit calculation in view of the constraints he faced. It is a *reaction*, not the action of a liberated will.

Collingwood continues, giving another example: “When an historian asks ‘Why did Brutus stab Caesar?’ he means ‘What did Brutus think, which made him decide to stab Caesar?’ The cause of the event, for him, means the thought in the mind of the person by whose agency the event came about: and this is not something other than the event, it is the *inside* of the event itself.” The Max-U model slides past the *inside* of the event, turning it so to speak inside out the better to reduce thought to “observable,” “behavioral” reactions to “objective” constraints. (My scare quotes here put a check mark beside the philosophically naïve dogmas in Samuelsonian economics, and in Marxism, too; I do not entirely exempt Austrian economists from the charge of a similar scientific naiveté.)

Samuelsonian economics therefore confuses necessary with sufficient conditions, and confuses helpful side conditions with inspiring casual conditions. For example, the idea overused in Samuelsonian economics of the “production function” (which I myself overused for decades, after learning it in graduate school) says that a book of alternative recipes for products is necessary. Certainly, it is, whether literally written down or not. Put together such and such a tonnage of coke (from coal), iron ore, and limestone into a blast furnace with such and such specifications run by a certain number of laborers with such and such skills, according to page 106 of the book of recipes, and you get a ton of pig iron. Use instead the recipe from page 26, which entails much more labor, and is charged instead with charcoal (from wood, instead of coal), and you get the ton of pig iron, but with differing opportunity cost of the inputs used. Good to know.

But to stop at the recipe book as the “cause” of the pig iron is to confuse the book with the human action sufficient and inspiring that yielded the very book, such as an

engineering self-education and craft traditions, and a liberal society encouraging having a go at exercising them. And most basically it ignores the human creativity that suffices for education and craft and betterment, when the society permits.

True, French cuisine still depends to some degree on *Le Guide Cuisinaire* (1903; also called *L'art culinaire*) by Auguste Escoffier, as for example in its five “mother sauces”: béchamel, espagnole, velouté, hollandaise, and tomate. Escoffier’s *Guide* is a necessary input, or at least a helpful one, into *Mastering the Art of French Cooking*, and into Julie’s 365 days of dinners cooking from it. But the sufficient and inspiring causes of French cuisine are not such items in the present supply chain. They are the social and intellectual arrangements in French kitchens and restaurants that made for the books in the first place, from Guillaume Tirel in the fourteenth century and Catherine de Medici in the sixteenth century down to untold thousands of wives, and then husbands, too, inventing crème caramel and bouillabaisse, with the millions of French eaters insisting on getting a good meal, “Slow Food,” and willing to chat about it endlessly. The “causes” in a sense relevant to serious scientific description, and to proposals for policies to encourage haute cuisine, were not recipes but the *ideas* for the recipes, the human creativity along with the conditions such as *liberté*, and then practice, practice. (How do you get to Guy Savoy, Monnaie de Paris, 11?) The causes were not production functions—not the routine, bookable recipes helpfully teaching how to combine ingredients and to practice, practice by chopping potatoes. The sufficient cause under some broadly available necessary conditions, such as the existence of labor and sunlight and Paris, was human creativity.

The production function construed as causal confuses necessary with sufficient conditions; it is to confuse modestly helpful pedagogy (on the “outside” in Collingwood’s terminology, as for example the Samuelsonian economist’s ill-named “growth theory”) with powerfully inspiring conditions on the “inside” for human action in creation. It leads away from a proper understanding of economic growth, among lesser topics in economics.

Establishing property rights under a rule of law, to instance the behaviorist, neo-institutionalist’s favorite cause, is necessary and helpful, of course, for the life of man, quoth Thomas Hobbes, is solitary, poor, nasty, brutish, and short. You can therefore explain why nations *fail*, and can discern the origins of poverty, by noting the nasty incentives that have led most nations for millennia far enough away from the rule of law and of alienable property rights and the rest to hobble the economy (Acemoglu and Robinson 2006, 2012).

But you can only explain why nations *succeed*, and then discern in a proper economic science the origins of our startling modern prosperity, by noting with Francis Hutcheson of Belfast and Glasgow the sufficient cooperativeness, and noting with his student Adam Smith of Glasgow and Edinburgh the inspiring liberties, jointly sufficient, that led a few nations such as Holland and Britain early and the USA and Sweden and Japan later towards enterprise and betterment. Even if *Le Guide Cuisinaire* had been a deeply flawed book, you could still explain some outcomes in bad cooking. But, in any case, excellent cooking, and excellent economic science, comes from human creativity liberated—such as exhibited by the admirable

Escoffier and the admirable Samuelson. We should seek to know the sufficient conditions for such creativity. That's economic science, and it is in particular in Austrian economics when it seeks, as it should, to explain the Great Enrichment, 1800 to the present.

Elevating a necessary condition for the production function such as property rights to the cause of modern growth would be like elevating the existence of the tomato in Europe after the Columbian Exchange to the cause of *sauce tomate*. It was necessary, obviously, but not sufficient, equally obviously. The British and the Dutch and the Germans had the necessary tomatoes, too, but did not have the sufficiencies that made for their glorious Italian and then French use. Tomatoes, labor, and capital in France made for French cuisine; in Germany, German. (I rest my case.)

Once you have such understanding, you stop believing in simple formulas for improving lives by coercing people, what Futerman and Block call “the fallacy of a priori statism.” My friends on the left, and quite a few on the right, too, believe that the government is a swell bunch of folks with amazing abilities to instruct us all in how to live. They can solve easily the “knowledge problem” that Hayek articulated in 1945—an essay still neglected by most Samuelsonians and all but one or two Marxists. That is, these swell folks can know from Washington or Brussels or for that matter from Moscow or Beijing just what you need today in the way of haute cuisine.

One of my two college roommates, David, was a brilliant electrical engineer. David on the banjo, with Derek and I on guitars, would leave off studying late of an evening to belt out labor songs. I was a socialist then—to this day I know more labor and socialist songs than my leftwing friends. The songs fit well with the economics that Derek and I were being taught at Harvard College in the early 1960s—Keynes and social engineering to help the poor, by running their lives. Derek and I then believed Keynes's lofty assurance in 1936 that an economist is “in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage” (Keynes 1936, Chapter 12, Section VIII). To an old classical liberal nowadays such brisk statism seems, as the British would put it, daft, loony, bollocks, bonkers, stark raving mad—and very much not helpful to the poor. But it was highly flattering to young American economists in the 1960s just learning such magical ideas as the Keynesian multiplier and the creation of supplies of goods and services out of demanding them.

Therefore, Derek and I, the official students of economics in our room, scorned David's reading, during breaks from solving second order differential equations, of Ludwig von Mises's *Human Action*. I can still see David tilting back in his chair, puffing on an unfiltered Gauloise cigarette and sipping occasionally on a cup of espresso, with the old Yale Press edition of Mises propped on his lap.

Had I picked up the book and read with humility, instead of sneering at it from a proud statism of long views able so easily to discern the general social advantage, I would have saved a lot of time—I mean, three or four decades late in which I slowly, slowly left statism for a true liberalism, and the Austrian (and neoclassical) economics and the libertarian policies of Futerman and Block.

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UIC Distinguished Professor of Economics
and of History Emerita, Professor of English
Emerita, Professor of Communication Emerita
University of Illinois at Chicago
Chicago, IL, USA

Deirdre Nansen McCloskey

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Introduction

Austrian Economics and Libertarianism

This book ranges widely over a number of topics, not all of them that usually fit inside the covers of any one book.

What is the thread that runs through them all, apart from the fact that we two coauthors of this book have written all of them? Well, there are several threads. For one thing, we are both animated and inspired by the libertarian philosophy of our beloved mentor, Murray N. Rothbard. We do not agree with him 100% of the time, but even when we diverge to the greatest degree possible, we are inspired by his example. That is the normative thread. The other is Austrian Economics, i.e., the economic perspective we use in order to analyze the subjects treated in this book, ranging from epistemology and methodology of economics to international economics. That is the positive thread.

Hence, this book covers several areas of economic theory and political philosophy from the viewpoint of Austrian Economics and libertarianism. As such, we deal with Epistemology and Methodology, Microeconomics, Macroeconomics, Labor Economics, International Economics, Political Philosophy, Law, and Public Policy, all from our Austro-Libertarian perspective.

Thus, this book offers the reader an integrated view of libertarianism and Austrian economics in the light of recent debates in economic science and political philosophy. Moreover, this volume builds from the foundations of our approach (epistemology and methodology), applying to the individual on the microeconomic level, which in turn allows us to deal with subjects in macroeconomics. We also analyze issues in law, politics, and public policy. Thus, this book gives readers a unified view of our entire approach, in a logical progression, allowing them to judge it in full.

We do not here offer a manual, but rather a collection of cases analyzed in the light of our perspective, hence illustrating what a typical textbook on economics or political philosophy explains only on the theoretical level. By reading these essays,

the reader is introduced to applications of Austro-libertarianism, which will concretize what is often explained only in theory.

Following Israel Kirzner's book entitled *The Economic Point of View: An Essay in the History of Economic Thought* (with an Introduction by Laurence S. Moss. Kansas City: Sheed Andrews McMeel, 1976), this book is named *The Austro-Libertarian Point of View: Essays on Austrian Economics and Libertarianism*. The idea is to show how our point of view explains economic phenomena, and how it applies to issues in law and politics. Although Austrian economics is positive and libertarianism is normative, this book shows how both are related; how each can support the other.

Despite being structured in a logical progression, the reader can choose to read any individual chapter according to their interests as these are all self-contained works.

Chapter 1 deals with the epistemology and methodology of economics. It builds on Ludwig Von Mises' action axiom, and develops its implications. The central idea is to give the reader an exposition of praxeology, in the Misesian tradition. This insight by the Viennese economist allows us to derive the fundamental features and implications of human action, including value, scale of value, scarcity, abundance, profit, loss, uncertainty, causality, and others. We also deal with objections and try to present different approaches to its foundation. As it can be seen, this is not only relevant for human behavior as such, but also to its economic applications. It is crucially important to extol the benefits of economic laws which are necessarily true, and not mere tautologies.

Chapter 2 is focused on analyzing neoclassical microeconomics, especially with regard to consumer choice, and how and in what respect the Austrian perspective diverges from it. We analyze the concepts of utility maximization and indifference, and argue how they are not fully capable of explaining consumer choice, as is often presented by neoclassical economists.

Chapter 3 consists of an application of the Austrian approach to government intervention in general and minimum wages in particular, on the basis of a paper which we co-authored with Kevin Aguilar. We object not only to the level of any particular minimum wage, but also to its very existence. Some people (Bernie Sanders!) might dismiss this as callous, and indifferent to low skilled workers. We demonstrate that the very opposite is true.

Once we have surveyed some of the main subjects in microeconomics, we are ready to deal with issues in macroeconomics.

In Chap. 4, we present the Austrian Business Cycle Theory and, on the basis of a paper co-authored with Dr. William Barnett II, analyze the feasibility of extending it to economies with large government sectors (big in both scale and scope) and how this affects the original ABCT.

Later, in Chap. 5, we deal with subjects regarding international economics: first, by analyzing Nassim Nicholas Taleb's critique of David Ricardo's Law of Comparative Advantage, and defending its validity, and second, by rejecting the Prebisch-Singer theory of the deterioration in the terms of trade on an Austrian basis, thereby, in both cases, defending international free trade, both for developed and underdeveloped economies.

The burden of Chap. 6 is devoted to libertarianism and political philosophy. Specifically, we present the ideal of a private property society, or Anarcho-Capitalism. First, we oppose the idea of the state as an ideally legitimate or efficient entity. We define the fallacy of *a priori* statism to refute claims that only the government can solve issues of so-called market failure. Secondly, we take to task the views of those who critique (private property) anarchism, on the basis of our reply to Professor Robert T. Miller's objections to our approach. We thereby defend laissez faire capitalism based on its most radical interpretation.

Chapter 7 offers a libertarian interpretation of the US Constitution. Hence, we apply libertarianism to law, and analyzing US history by so doing. This chapter in particular is also helpful in order to understand the slow and complex institutional path by which a society becomes more and more interventionist.

Chapter 8 treats subjects in public policy according to libertarian law. The first essay analyzes the subject of drugs legalization. The second, is a very brief exposition of how a libertarian society would deal with a pandemic such as COVID-19.

We share some final thoughts with the reader in Chap. 9.

In sum, this book offers our analysis of different areas of thought and reality on the basis of an Austro-Libertarian perspective. We hope the reader enjoys reading them as much as we enjoyed writing them.

And now, let us begin.

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