

The Capital Structure of Libertarian Production

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Abstract:

The purpose of the present article is to reflect on the intellectual origin of the close relationship between Austrian economics and libertarian philosophy. It suggests that the relationship in question is grounded in the fact that personal liberty and individual initiative, in addition to being significant moral values, are also crucial reservoirs of organizational efficiency and developmental drive. This implies that libertarian values can be disseminated, promoted, and implemented particularly effectively as a result of utilizing theoretical insights of the Austrian school, which is singularly committed to explaining the efficiency-enhancing features of the unhampered market process and entrepreneurial rivalry. In this connection, special attention is devoted to the liberty-promoting potential of Austrian contributions to the fields of capital, entrepreneurship, and the firm.

Keywords: Austrian economics, libertarianism, capital theory, entrepreneurship, organizational science.

1. Introduction

Historically speaking, there exists a close relationship between the Austrian tradition of economic theorizing and the libertarian tradition of social thought. That is to say, adherents of the former are typically sympathizers of the latter, and vice versa. One should hasten to add that this is a contingent correlation, not a necessary causal connection, since Austrian economics is a purely positive scientific discipline, while the libertarian philosophy is a paradigmatically normative scholarly endeavor.

Hence, one might wonder what causes this relationship to be so consistent and pronounced. One promising answer to this question may start with the observation that several important varieties of libertarianism regard individual liberty not only as an end in itself, but also as a crucial prerequisite of human flourishing. Since human flourishing can be defined both in utilitarian and in Aristotelian terms – that is, both in terms of desire satisfaction and in terms of virtue formation – it is no surprise that both utilitarian [13] and Aristotelian [16] varieties of a consistent philosophy of individual liberty have been developed over time. In other words, individual liberty has been

identified in the philosophical literature as an essential source of material prosperity, psychological well-being, and character development alike.

One can easily conclude that none of the above phenomena can be fully actualized in the absence of large-scale social cooperation based on productive specialization and division of labor. This is because human beings are essentially social entities, whose productive potential grows in proportion to their ability to harmonize each other's interests, talents, and capabilities, which, in turn, is possible only insofar as a given society embraces the natural order of personal freedom and strictly protected private property [9].

Unsurprisingly, this is where economics comes into the picture, since, in perhaps its most compelling definition, the discipline in question is the science of cooperation. As such, it is primarily focused on describing the institutional prerequisites and organizational potentialities of concerted human action, thus implicitly studying the requirements and promises of a system of ordered liberty. However, one could make a reasonable argument that it is not just economics, but in particular the Austrian tradition in economics that deduces the whole edifice of laws that govern complex collaborative interactions by investigating the ramifications of unhampered human activity.

In this connection, one has to emphasize that the Austrian tradition (or, for that matter, any other analytically mature school of economics) does not endorse individual liberty as a normatively desirable foundation of a well-functioning society, since this is not the task of positive science. Nor does it study exclusively the workings of those cooperative orders where instances of human action are wholly harmonious – far from it, it devotes serious attention to the counterproductive effects of coercive incursions into the market as well [10]. That being said, it nonetheless makes arguably the fullest and most comprehensive connection between the unhampered pursuit of more satisfactory states of affairs and praxeological phenomena that enhance this pursuit's effectiveness – phenomena such as the competitive incentive structure, the market price system, and the intertemporal coordination of resources guided by unmanipulated interest rates.

Thus, the informal alliance between Austrian economics and the libertarian philosophy becomes eminently comprehensible – without encroaching upon each other's distinctive circles of competence, two important sources of social analysis reinforce each other's conclusions.

In this article, however, I would like to put forward a somewhat less obvious suggestion: namely, the suggestion that libertarian thought can learn from the Austrian tradition not only on the substantive level, but on the instrumental and organizational level as well. More specifically, I would like to propose that the former can be disseminated, promoted, and implemented more effectively as a result of utilizing theoretical insights derived from the latter, in particular those belonging to the areas of capital, entrepreneurship, and the firm.

In other words, I would like to use a specific example to illustrate the more general contention that Austrian economics, in virtue of its perspicacious analysis of the universal logic of action, can also offer useful guidance in the realm of coordinating particular instances of action aimed at accomplishing complex organizational goals. Since boosting the popularity of the libertarian philosophy in a world where much effort has been devoted to subverting our natural intuitions regarding the nature of aggression, self-ownership, and authority [6, chap. 6] can be rightly seen as a formidable challenge, I regard this challenge as a highly suitable illustration of not just the theoretical, but also the practical application of the Austrian tradition.

2. Capital Theory and Organizational Complementarity

One of the cornerstones of Austrian economics is its distinct theory of capital [12]. In contrast with the mainstream neoclassical approach, the Austrians regard capital goods not as elements of a homogeneous blob representable by a single variable in an equation, but as heterogeneous resources that differ in terms of their productive attributes, including, in particular, their specificity and substitutability.

One could make a solid argument that the theory in question is the conceptual common denominator of all the major intellectual achievements of the Austrian school. In connection with the socialist calculation debate, the Austrians never tire of stressing that the essential weakness of socialism is its logical inability to evaluate the relative economic worth not of consumer goods, but of various combinations of capital goods [18]. In connection with the theory of entrepreneurship and the firm, the Austrians emphasize that the gist of entrepreneurial activity – that is, firm ownership – consists in creating, recreating, and otherwise managing productive structures of heterogeneous capital assets [5]. And in connection with the theory of business cycles, the Austrians point to economy-wide clusters of capital malinvestments induced by the artificial suppression of interest rates as the main source of boom-bust sequences [22]. In sum, in the absence of understanding the nature of capital goods as expounded in the Austrian tradition, it is impossible to grasp the reasoning behind any of the major economic insights mentioned above.

It is my contention that the observation under consideration can be extended beyond the purely theoretical context and applied to the field of organizational practice. With regard to the latter, it offers a number of suggestions as to how to address large-scale collaborative challenges successfully. Furthermore, since enacting major shifts in public opinion clearly belongs to the category of such challenges [7], and since expanding the scope of individual freedom through the promotion of the libertarian philosophy evidently entails enacting such a shift, the task in question can be treated as an illustrative case here.

The Austrian insight into the nature of capital goods implies that, just as particular productive assets need to be combined into complementary modules in order to unleash the full extent of their economic value, particular organizational methods need to be similarly combined in order to make the accomplishment of a given goal maximally feasible. To take a simple example, if a company wishes to establish goodwill among its customers, it may avail itself of a range of mutually reinforcing methods, both retrospective and prospective: it may rely on a history of exceptional performance, publicly accessible positive customer reviews, brand recognition, product guarantees, etc. The greater the number of such concurrently utilized methods, the greater, other things being equal, the likelihood of establishing a positive rapport with one's customers successfully.

Similarly, if one wishes to attain a broader cognitive goal – say, learning how to become a prosperous market entrepreneur – one should consult as many relevant sources of knowledge as possible. For instance, one might appeal to deduction in attempting to grasp the economic foundations of entrepreneurial activity, make use of induction in studying specific historical cases of entrepreneurial success and failure, advert to perception in studying the decisions of actual entrepreneurs in their everyday environment, and exercise intuition in making similar decisions as an entrepreneurial novice. Again, the greater the number of epistemic sources that one draws upon, the greater, other things being equal, one's likelihood of addressing a given complex cognitive challenge successfully.¹

Having made the above introductory conceptual remarks, let me proceed to applying this line of argumentation to the specific case of promoting a consistent philosophy of individual liberty. In this context, one often encounters disputes aimed at determining the optimal method of reducing the extent to which initiatory violence is generally regarded as an acceptable foundation of social organization. According to some, independent education should take the center stage here – the kind of education that consistently underscores the ethical self-evidence of the non-aggression axiom, exhaustively highlights the benefits of peaceful social cooperation, and carefully identifies psychological biases and ideological tricks that are routinely exploited to whitewash intuitively immoral acts of institutionalized coercion. According to others, since deeds speak louder than words, it is more advisable to point to successful instances of communal self-organization and entrepreneurial innovation as practical and tangible victories of voluntary social arrangements in the area of solving collaborative challenges. Still others contend that the best way to neutralize the influence of coordinated aggression lies in promoting secessionist and decentralist efforts,

especially insofar as they allow for tapping into local communities' desire for economic, administrative, and cultural self-determination.

In view of the main proposition of the present chapter, the above disputes should be thought of as futile at best and counterproductive at worst. This is because various methods of advancing liberty sketched in the previous paragraph are not only not mutually exclusive, but, much more importantly, they are likely to be relatively fruitless unless they are strategically combined and deployed in a mutually reinforcing manner.

For example, educating others about the wealth-destroying effects of fiat money and central banking can be a tough and ungrateful task if one is restricted to relying on abstract economic theory. If, however, one can supplement one's message by pointing to financial innovations such as cryptocurrencies and the blockchain protocol [3], describing such novelties as modern-day instantiations of the classical gold standard and its inherent fiscal advantages, then one can make one's teachings both more comprehensible and more inspiring. The obvious caveat here is that introducing additional technical complications into one's statements can generate additional explanatory challenges as well, but, especially if one addresses a wide and heterogeneous audience, many of its members may conclude that the greater the overall appeal of the message heard, the greater the intellectual difficulties one should be willing to confront in trying to grasp its contents.

Similarly, expounding the liberty-enhancing features of decentralization, secession, and local autonomy in terms of theoretical concepts such as institutional polycentricity and easily exercisable voice and exit options may be a singularly tall order. However, bringing into the picture concrete historical, contemporary, and speculative examples may put some much-needed meat on the conceptual bones of abstract social philosophy. On the historical front, one can appeal to cases such as that of 19th century Germany and the great scientific and cultural accomplishments of this country made under the then prevailing conditions of decentralist classical liberalism [15], especially when compared with its later unificationist downfall culminating in the totalitarian horrors of the 1930s and 1940s. When it comes to the contemporary scene, one can point to the impressive liberty and prosperity of micronations such as Andorra, Monaco, and Liechtenstein [26]. And with regard to speculative analysis, one can combine the above two perspectives and suggest that a world divided into hundreds of thousands of micronations and other forms of small, purely consensual territorial entities could make the kind of liberty and prosperity enjoyed by Andorrans, Monegasques, and Liechtensteiners a worldwide phenomenon [19].

It is worthwhile to note that method complementarity of the sort described here might crucially determine whether one's overall course of action is liberty-enhancing or the opposite. Trying to organize a successful secessionist movement, for instance, can be motivated by libertarian considerations, but it can be motivated by nationalist statism as well. In the latter case, if secession does in fact happen, the newly established territorial entity may quickly become much more impoverished and repressive than the one from which it broke off. If it subsequently goes bankrupt or otherwise dissolves into economic chaos, its inhabitants may well decide to petition their erstwhile "oppressors" for reintegration, thus giving ideological ammunition to those eager to ridicule the very idea of secessionism and consistent political decentralization. If, on the other hand, would-be secessionists are well-versed in the organizational benefits of the free enterprise system, then, regardless of how cosmopolitan or ethnocentric they may be, they are unlikely to believe that the flourishing of their dreamed-of autonomous community can be achieved by means of restrictionism and other forms of politically enforced patriotism.

In addition to method complementarity, discipline complementarity can also be fruitfully utilized in this context. Philosophical considerations surrounding the non-aggression principle, self-ownership, and inalienable natural rights are doubtless of high importance when it comes to enacting palpable pro-liberty shifts in public opinion, but speculative social theory may not be perfectly digestible for an average layperson. Hence, to increase one's persuasive powers it might be advisable to supplement the philosophical message of libertarianism with relevant insights coming from other scholarly fields.

For instance, in the area of motivational psychology, one may encounter the concept of “flow”, which describes the state of being engaged in a given activity to the point of losing oneself in it while nonetheless remaining highly focused and self-possessed [2]. What is crucial here is that, on the one hand, the activity in question has to be specialized enough to require advanced cognitive and emotional skills to perform it effectively, but, on the other hand, it has to be sufficiently demanding to pose a challenge even to individuals who possess such skills. Now, a promoter of the libertarian philosophy might cogently argue that the state of flow can be entered into only by those who exhibit a liberty-oriented mindset, which emphasizes entrepreneurial thinking and trial and error based training. By the same token, he might justifiably claim that the state of flow can never be entered into by those raised in the spirit of mental enslavement characteristic of the culture of welfare statism [14]. Insofar as having a robust sense of purpose in one’s life and work is rightly seen as singularly important, and insofar as being capable of entering the state of flow can be seen as instrumental to developing such a purpose, respect for individual liberty can thus be identified as essential not just to ethical propriety and economic prosperity, but to psychological well-being as well.

To take another pertinent example, in the field of organizational theory one may encounter the concept of “derived judgment”, which describes the practice of entrusting specifically entrepreneurial tasks to hired managers in the context of complex business frameworks [4]. The idea behind this practice is that beyond a certain level of organizational complexity full-blooded entrepreneurs – defined as firm owners – are incapable of evaluating the performance of their executive employees on the basis of any pre-defined criteria of professional competence. As a result, tapping fully into the productive potential of such individuals may require endowing them with broad discretionary powers over the assets they manage, similar to the ones previously restricted only to firm owners themselves.

In other words, in order to allow large, internally specialized organizational frameworks to run smoothly, it is advisable, so the argument goes, to reduce the degree of hierarchical micromanagement and broaden the scope of personal autonomy within their confines, at least with regard to the workstyle of higher-level employees. However, such an approach can bear fruit only if the employees in question are sufficiently reliable and trustworthy – otherwise allowing them to exercise derived entrepreneurial judgment is bound to generate a particularly dangerous form of moral hazard. Here one might plausibly suggest that social arrangements based on unconditional respect for individual liberty – and its necessary corollary, strict personal responsibility for the consequences of one’s actions – are optimally suited to endowing people with the entrepreneurial mindset needed to fulfill the above role dependably. Thus, internalizing genuine libertarian values over the course of the formative period of one’s life may be justifiably regarded as instrumental to organizational efficiency, especially within highly specialized cooperative environments.

Finally, in the field of risk management one might argue that a maximally decentralized network of independent decision-making centers is uniquely suited to withstanding unpredictable large-scale shocks of a singular nature. Since, by definition, it is impossible to prepare for such shocks, nor is it possible to deploy any standard, universally applicable mitigation procedures when faced with them, the only promising response here appears to be widespread experimentation based on organizational variation. In the aftermath of such catastrophic events, some nodes of the network under consideration may fail, some others may survive, and yet others may flourish, having successfully dealt with the danger and having gained valuable experience along the way. Hence, the overall social system structured along these lines is likely to be not just resilient, but “anti-fragile” [23] – that is, capable of growing stronger under the pressure of stressors, including the unique and unpredictable ones.

For such a system to emerge, however, individual liberty and private property would have to be respected unconditionally so that people could voluntarily segregate into as many independent communities and self-governing administrative units as they might please [24]. If, on the contrary, the process of political unification were to continue up to the point of the establishment of a world state, with the attendant unification of laws, regulations, and emergency measures [8], then the

global economic and social organism would become maximally fragile and susceptible to systemic breakdowns.

To conclude, libertarian inclinations can be best promoted when complementary streams of intellectual capital are devoted to that purpose. And while this principle may apply to fostering the cause of any idea, it is likely that its effectiveness can be particularly impressive with regard to ideas that are multifaceted, interdisciplinary, and ubiquitously relevant, personal freedom clearly belonging to this category.

3. Organizational Success and Institutional Resilience

Another area in which Austrian economics may turn out to be a potent source of organizational insights pertains to the economic and institutional roles of private property. While almost every school of economic thought prides itself on recognizing and underscoring the crucial role of private property in fostering productive incentives and managerial farsightedness, it might be argued that only the Austrian tradition captures the praxeological essence of rivalrous ownership that makes advanced social cooperation not so much effective, but possible at all. More specifically, it points out that it is only the free exchange of property titles to factors of production that can instantiate the intellectual division of labor whereby the contributions of individual market participants to the total economic product can be evaluated in intersubjectively meaningful and quantitatively precise terms.

By the same token, the Austrians demonstrate that the phenomenon that constitutes the primary driving force of the abovementioned process of competitive appraisal – namely, entrepreneurship – is inextricably bound with capital ownership [21]. Since economic calculation is ultimately a praxeological, not a psychological process, and since it necessarily involves speculative deployment of scarce resources, entrepreneurs have to be strictly distinguished from inventors, consultants, educators, thinkers, and other individuals who operate exclusively in the realm of conceptual abstractions. In other words, one might suggest that regardless of the organizational importance of great ideas, sound advices, and heroic statements, it is entrepreneurship that serves as the essential bridge between word and action in a world of limited goods and uncertain outcomes [25].

The above observation applies to all kinds of entrepreneurial ventures, including those that are sometimes especially dignified by being designated as “non-commercial”. While, strictly speaking, this is an incorrect term here, since all instances of peaceful social cooperation are grounded in broadly understood commercial values – namely, the consensual exchange of scarce goods and the pursuit of psychic profit – it might be agreed that some of them appear particularly disinterested in virtue of their sheer intellectual ambition. Projects aimed at causing substantial shifts in public opinion are typically seen as belonging to this category, and perhaps this is at least partly why institutions that orchestrate them are traditionally referred to as “non-profits”.

This, again, is an inaccurate term at best, since no non-coercive institutions can operate on a profitless basis – unless they are able to generate the revenue necessary to cover their operational costs, they eventually have to cease their activities. The popular impression that such entities are insulated from “mundane” economic considerations is most likely the result of the fact that their intellectual beneficiaries need not be their economic benefactors. The process of reciprocal value creation assumes a more circuitous form in such contexts – the form whereby economic benefactors support a given entity insofar as they regard it as capable of genuinely satisfying its intellectual beneficiaries. In other words, idea-driven “non-profits” must ultimately strive to satisfy their indirect customers – thus, they, too, clearly need to follow the strictures of economic calculation, but its “roundabout” character saddles them with an additional layer of uncertainty.

This realization allows for disabusing oneself of the notion that successes in the realm of ideas are outgrowths of purely “spontaneous” undertakings, understood as cases of viral dissemination of novel insights crafted by creative geniuses and propagated by enthusiastic volunteers. While a touch of genius supplemented with copious amounts of intellectual enthusiasm may be regarded as necessary conditions of such undertakings being successful, they are

nonetheless not sufficient. This is because, as indicated earlier, intellectual entrepreneurship is, organizationally speaking, at least as demanding as its straightforwardly “commercial” counterpart. In fact, on account of the former’s characteristic feature described above – the roundabout relationship between customer satisfaction and monetary gratification – it can be justifiably seen as even more demanding.

Hence, it becomes clear that successful intellectual entrepreneurship requires professional organization, which implies that think-tanks and other idea-driven institutions must be considered as firms in their own right. As such, they need to possess their own capital structures of production, command their own qualified and reliable staff, and oversee their own carefully planned educational and promotional projects [20].

Furthermore, it appears that building such an institutional background is particularly vital for libertarian establishments. The reason for this is twofold. First, professionalization and organizational efficiency enjoyed by such intellectual outlets testifies to the practicality of purely voluntary, consensual, and liberty-driven administrative arrangements. More specifically, it indicates that unconditional respect for individual liberty is both a sound principle of managerial success and a reliable incentive for excellent performance. And second, possessing one’s own operational infrastructure is crucial in disseminating ideas that, due to their character, may be actively opposed and even repressed by political regimes and their corporate allies [17]. Phenomena such as online deplatforming and other forms of “soft censorship” are among the clear examples of the necessity of owning physical technological assets in the context of maintaining uninterrupted informational presence in physical and virtual space alike. By the same token, they highlight the fact that no matter how noble, insightful, and beneficial certain ideas may be, their purely spontaneous dissemination can be easily overwhelmed by concerted efforts at suppression, vilification, and caricaturization.

In sum, setting up and skillfully managing a well-organized and well-funded institutional framework is an essential prerequisite of being a successful intellectual entrepreneur. However, even having deeply internalized this truth, liberty-minded educators and promoters have still further managerial challenges to address. Chief among them is perhaps the one having to do with charting a healthy middle course between ideological authoritarianism and petty sectarianism.

Thus, on the one hand it is imperative that libertarian organizations reject all attempts at coalescing into a single ideological front, let alone into a unitary operational structure. This has to do both with formal and substantive reasons. On the formal side of the issue, libertarians should be particularly conscious of the inherent dysfunctions of sprawling command-and-control systems, in particular of their inability to respond effectively to local organizational challenges and to engage in sound economic calculation [11]. Likewise, on the substantive side of the issue they should be especially aware of the unique power of centralization to sap the potential of proactive individuals to promote constructive causes. In other words, establishing a unified institution for the furtherance of libertarianism would be something of a performative contradiction – the emergence of an entity whose supposed ability to leverage administrative economies of scale actually undercuts the integrity of its core mission.

On the other hand, however, libertarians should be wary of losing the clarity of their message in misguided attempts at appealing to every self-proclaimed “marginalized group”. One of the main selling points of the libertarian philosophy is that it is perhaps the only truly “thin” sociopolitical doctrine – i.e., one that is compatible with practically every comprehensive normative worldview that is grounded in consensual acceptance [1]. Consequently, whoever aims at “thickening” the message of libertarianism runs the risk of creating a sect that is more likely than not to engage in mutually destructive ideological conflicts with other self-identified adherents of this philosophy over the appropriate understanding of its contents. This necessitates that intellectual entrepreneurs committed to the cause of individual liberty avoid the siren song of edgy radicalism capable of attracting the attention of various fringe groups at the expense of alienating the majority of regular people otherwise sympathetic to the message of purely voluntary social cooperation.

In sum, establishing and maintaining a well-functioning institutional framework for the promotion of libertarian ideas requires navigating the tension between decentralized organizational diversity and overarching intellectual consistency. Thus, combined with the previously discussed necessity of engaging in “roundabout” economic calculation characteristic of “nonprofit” management, it amounts to a considerable and in many ways unique administrative challenge. It is to be hoped that Austrian insights into the nature of private property and the functioning of the firm can help guide liberty-minded intellectual entrepreneurs on the road to meeting this challenge successfully.

4. Conclusion

Austrian economics, though a tradition of a purely positive science, turns out to offer numerous noteworthy observations capable of facilitating the quintessentially normative task of enacting major changes in public opinion, especially insofar as the promotion of intellectually abstract and morally demanding ideas is concerned. Since libertarian ideas clearly belong to this category, one might argue that the observed close relationship between Austrian theorizing and libertarian advocacy is, at least in some measure, grounded in the fact that personal liberty and individual initiative, in addition to being significant moral values, are also crucial reservoirs of organizational efficiency and developmental drive. In this article, my goal was to point out that the analytical cross-fertilization between the abovementioned two disciplines has much to offer in terms of exploiting these reservoirs to the fullest, including most importantly their administrative and managerial dimension.

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Notes

1. One should keep in mind that this is much more of a heuristic rule than an exceptionless principle, since many cognitive problems are narrow and specialized enough not to require the use of multiple sources of knowledge. Solving even very complex mathematical problems, for example, may require nothing more than exhaustive deduction. Furthermore, in any given case the relative importance of each relevant source of knowledge may differ.