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Winter is Coming: A Tale of Two Futures – Entrepreneurial State or Creative Destruction?

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Abstract: This paper aims to explore the fundamental principles of sound monetary policy, fiscal prudence, and entrepreneurial innovation, which have historically supported the economic prosperity of nations. It seeks to identify the factors leading to an impending financial crisis and proposes countermeasures based on market liberalization and individual entrepreneurial resilience. Using a critical analysis of prevailing economic conditions, this paper evaluates the unchecked expansion of the monetary supply, fiscal policies, and government interventions. The methodology includes a review of historical economic trends and the application of theoretical frameworks concerning monetary policy, fiscal responsibility, and market innovation. The research identifies that the unchecked expansion of the monetary supply has contributed to inflationary pressures, diminished savings incentives, and led to the misallocation of capital. In addition, fiscal looseness and increased government intervention have exacerbated these economic vulnerabilities, creating conditions ripe for an economic crisis of substantial magnitude, possibly surpassing previous crises such as the Great Recession and the COVID-19 pandemic. The paper concludes that this impending crisis is not an unforeseeable "black swan" event but rather one with clear warning signs that require immediate action. The findings advocate for a departure from interventionist policies and emphasize the importance of returning to foundational economic principles, including market liberalization and fostering individual creativity and entrepreneurial innovation. This paper serves as a timely call for policymakers to address these challenges before the full impact of the crisis is realized.

Keywords: COVID-19, Economic Growth, Entrepreneurship, Fiscal Expansion, Free Markets, Great Recession, Unconventional Monetary Policies

Lord, it's a damn *shame what the world's gotten to*
For people like me, people like you
Wish I could just wake up and it not be true
But it is oh, it is.
Part of the lyrics of "Rich men north of Richmond", by Oliver Anthony

1. Introduction

It is a shame what the world has become for people like me and for people like you. But how have we come so far? This position paper delves into the profound transformation of the global economic landscape, particularly since the pivotal moment on August 15, 1971, known as the Nixon Shock. Economist Philipp Bagus characterizes the ensuing period as the "Era of Inflation," a view with which this author concurs (P. Bagus, personal communication, December 21, 2023). The decision to end the dollar's gold convertibility fundamentally disrupted the global monetary system, laying the foundations for economic shifts that have continued to unfold over the decades.

From the Nixon Shock onwards, a succession of significant events has continuously redefined the economic sphere, subtly altering public understanding of the complex relationship between economic policies and their practical implications. The intricate interplay of these historical milestones has led to a situation where ordinary people find themselves somewhat disconnected from the delicate balance between fiscal and monetary policies and the tangible impacts on their daily lives.

This paper aims to illuminate the fundamental causes behind the looming, substantial monetary crisis that appears imminent. To achieve this objective, a deductive methodology has been employed, wherein specific economic measures are derived from a set of broader premises. It argues that this forthcoming economic downturn stems directly from defective fiscal and monetary strategies implemented over recent decades, essentially a "winter" created by previous errors. National governments, through their adoption of reckless fiscal policies, and national (or supranational) monetary bodies, serving as indispensable enablers, have steered us towards an exceedingly intricate and potentially perilous economic scenario. Concepts like the entrepreneurial state, modern monetary theory, and achieving social justice are increasingly influencing public policy decisions, while ideas such as creative destruction or the principle of human action are losing their foothold in the realm of public discourse.

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When dealing with a complex system, a researcher should be cautious about their own analytical capabilities. Trying to cope with all the existing variables that can be considered as inputs (such as actions of monetary institutions or government decisions on taxing and spending) and their effects on the outputs (such as economic growth, inflation, or unemployment rates) of the global economy can not only be an overwhelming task but also a fatal conceit, the kind that Hayek (1988) warned about. Therefore, the author considers that empirical methodologies are fundamentally flawed when attempting to analyze such a complex system as the modern global economy. While empiricism has fairly become the default scientific methodology for many physical sciences, it is unclear whether economic science always needs to rely on empirical results. Not in vain, Robbins defined economics as "the science which studies human behavior as a relationship between ends and scarce means which have alternative uses" (Robbins, 1934), which is also linked with the concept of human action from a Misesian perspective (Mises, 1949). In other words, economics is a social science where the forces at play do not respond to physical laws but rather to decisions made by humans. With this in mind, the present research uses praxeology as the methodological standpoint to analyze the complex relationships between inputs and outputs of the global economic system.

Praxeology is the distinctive methodology of the Austrian School of Economics (Huerta de Soto, 1994; Rothbard, 1976). Originally developed by Ludwig von Mises (1949), the cornerstone of the method is that individuals make economic decisions guided by the pursuit of specific goals, for which they allocate resources and choose a certain path of action. Praxeology uses the verbal deduction of logical implications, based on the conviction that empiricism may not be the best approach to all economic problems. Although praxeology is a classic analytical method, it shares some conceptual overlaps with various contemporary methodologies. For instance, game theory, while rooted in mathematical modeling, similarly examines strategic behavior and decision-making, offering a complementary perspective to praxeological analysis. Likewise, behavioral economics explores real-world decision-making and deviations from rational models, aligning with praxeology's focus on human motives and actions.

The structure of this paper unfolds as follows: Initially, we delve into the section entitled "Playing with Fire: The Perils of Excessive Monetary Manipulation," a critical examination of the dangers posed by overextended monetary policies. This sets the stage for the subsequent section, "The Entrepreneurial State Illusion: Fiscal Irresponsibility and the Erosion of Liberties," where we scrutinize the impact of fiscal mismanagement in the context of the entrepreneurial state and its broader effects on individual liberties. The paper closes with a review of "The Interplay of Creative Destruction and Human Action," followed by the Conclusions section.

2. Playing With Fire: The Perils of Excessive Monetary Manipulation

As of the summer of 2024, when this paper was composed, monetary authorities have been grappling for nearly two and a half years with the challenge of curbing inflation through some of the most significant quantitative tightening measures in recent history. This includes notable actions such as the Federal Reserve's 75-basis-point increase in June 2022, the steepest since 1994. These rate hikes were primarily aimed at achieving a "soft landing" for the economy, intending to stabilize rising prices without triggering a recession. While it is premature to declare the success of these measures, market intelligence seems optimistic, as evidenced by the S&P 500 rebounding from a 20% drop in 2022 to more than a 24% increase in 2023 and an additional 12% until mid-2024, reflecting investor confidence in the stock market and, by extension, in the global economic outlook (World Bank, 2022, 2024).

However, before delving further, it is crucial to examine the roots of the recent inflationary surge. The year 2021 marked a turning point, revealing the limitations of previously effective policies and leading to heightened inflation rates. While it is known that loose monetary policy can lead to overvaluations in real estate, stocks, and commodities (Bordo and Landon-Lane, 2013), the current inflation has been attributed to several factors, including expansive fiscal policies, shifts towards renewable energy sources (and their effects on energy prices), liberal monetary policies increasing market liquidity, and supply chain disruptions caused by mandatory lockdowns (Gohmi et al., 2024; Goryunov et al., 2023; Greenwood and Hanke, 2021; Menz, 2024; Reis, 2022, 2023).

Inflation, being a multifaceted phenomenon, is influenced by numerous variables. Yet, it is pragmatic to focus on the critical factors that, following Pareto's principle, contribute to the majority of the impact. In this context, Nobel Laureate Milton Friedman's assertion that "Inflation is always and everywhere a monetary phenomenon" is particularly relevant. As noted by Reis (2022), "if inflation rises, it is because the central bank allowed it to rise," while Greenwood and Hanke (2021) argue that there is both monetary inflation and ad hoc explanations of inflation. The latter are often used to attribute inflation to specific factors present on particular occasions. These views align with the observations of Martín de Azpilcueta in 1556 (Azpilcueta, 1556), who noted the impact of large quantities of gold and silver from America on the prices of Spanish goods, illustrating the effect of excessive money chasing limited goods. Nevertheless, the inflation rise between 2021 and 2022 can be explained by the significant shocks undergone by the economy between 2020 and 2022, and the loose monetary policies at the time, with the economic recovery of 2021 being insufficient to tighten this policy (Reis, 2022). That is, the rapid increase in global aggregate demand in the second half of 2020, concurrent with disrupted supply chains, produced imbalances that resulted in price increases, fueled by loose monetary policies (Goryunov et al., 2023).

Money in circulation today is calculated according to monetary aggregates. I will be referring in the following to the Monetary Base and M2, which are monetary aggregates used by the Federal Reserve to serve its mission. In that regard, the Monetary Base is the sum of currency in circulation (notes and coins) and reserve balances held by commercial banks at the Federal Reserve. It represents the foundation of the money supply, as it includes the most liquid forms of money. M2 is a monetary aggregate that represents a broader measure of the money supply than the Monetary Base. It includes all elements of M1 (which is the sum of currency in circulation, demand deposits, other liquid deposits, traveler's checks, and since May 2020, also savings deposits) plus several additional components (including small-denomination time deposits and balances in retail money market mutual funds) (Silva and Zimmermann, 2021).

The trajectory of these monetary aggregates can be used to understand how much money has been printed and put into circulation in recent decades. In fact, the Federal Reserve's expansion of its monetary base from 1 trillion dollars in 2008 to nearly 6 trillion by the writing of this piece in the summer of 2024, along with the corresponding rise in the money supply (M2) from 7.5 trillion to 20.7 trillion, cannot be overlooked when analyzing the inflationary trends of 2021 and 2022. As Azpilcueta observed centuries ago, an increase in the money supply exceeding the growth in goods leads to higher prices for the existing goods. The response of monetary institutions to the 2008 financial crisis (also known as the Great Recession) and the COVID-19 pandemic lockdowns resulted in the creation of 80% of all-time existing dollars within just 15 years (refer to Figures 1 and 2).

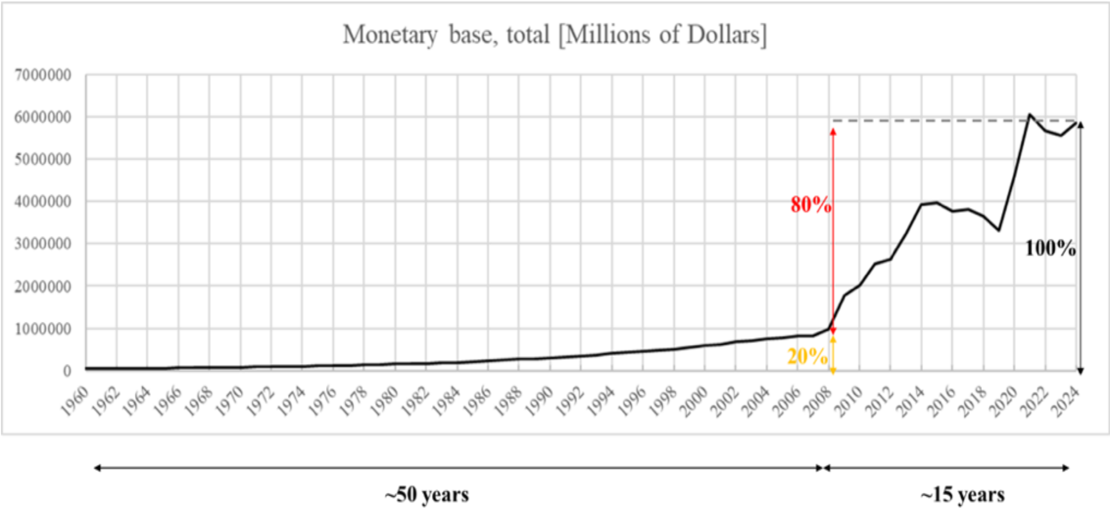

Figure 1: Monetary Base, as recorded by the Federal Reserve. Source: own elaboration over (Federal Reserve, 2024).

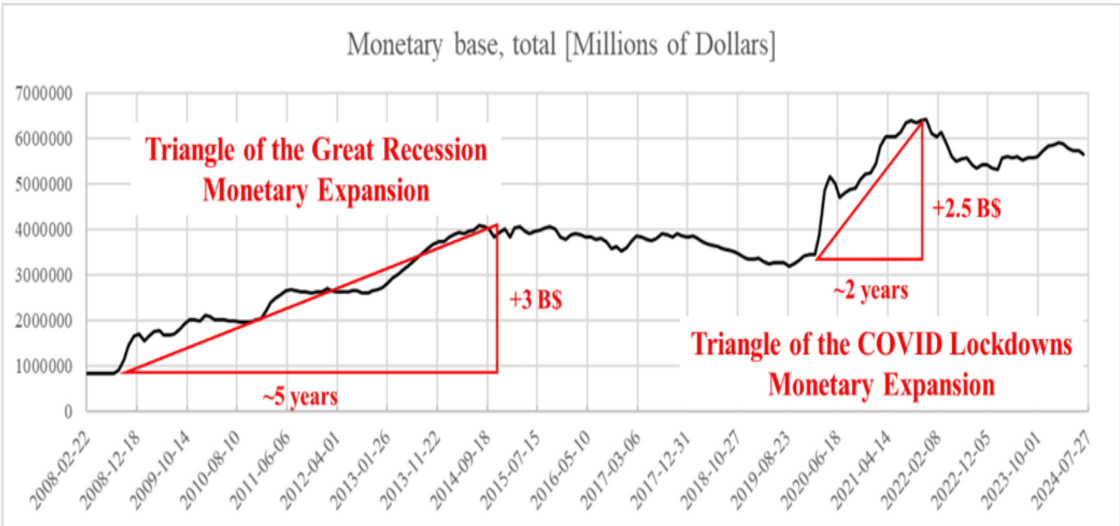

Figure 2: The Triangles of Monetary Expansion. Source: own elaboration over (Federal Reserve, 2024).

These findings underscore two key observations. Firstly, as of the time of writing this paper, it is evident that 20% of the total Monetary Base was generated over a span of 50 years, stretching from 1960 to 2010. Secondly, the remaining 80% of the Monetary Base was created within a shorter timeframe of 15 years, as illustrated in Figure 1. A closer examination of this latter period (Figure 2) reveals two distinct phases, delineated by the Triangles of Monetary Expansion, presented, to the best of the author's knowledge, in this paper for the first time. The initial phase witnessed a growth of 3 billion dollars over a five-year period, while the subsequent phase, characterized by a steeper ascent, contributed 2.5 billion dollars in just two years.

This paper posits that a significant portion of the inflation, which these institutions have been attempting to mitigate, was in fact instigated by their own actions. This represents only a part of the potential explosive monetary crisis. For a full-scale crisis to occur, poor monetary policy must intersect with unsound fiscal policies. The subsequent sections will explore these dynamics in greater detail.

3. The Entrepreneurial State Illusion: Fiscal Irresponsibility And The Erosion of Liberties

3.1. Fiscal Irresponsibility

In 2007, the U.S. federal government's debt was equivalent to 62.2% of its GDP. By 2024, this figure has soared to 122.3% of GDP, almost doubling the debt ratio in a span of 15 years. This rise in debt levels was not particularly alarming during this period, largely due to the persistently low interest rates from 2007 until mid-2022. Therefore, monetary policy independence can be at risk, which can be problematic, as stated by Durán-Vanegas (2019). Notably, in August 2022, the Federal Funds Effective Rate exceeded 2.5% for the first time since March 2008, marking the end of the longest period of low interest rates in recorded history (Recarte, 2023; World Bank, 2022, 2024; International Monetary Fund, 2021).

In such an extended low-interest-rate environment, what choices are left for individual actors and corporations but to increase their debt levels? For example, from 2005 to 2020, The Coca-Cola Company's net debt surged from 5.7 billion USD to 42.8 billion USD, and PepsiCo followed a similar trajectory, from 5.2 billion USD to 44.1 billion USD. In a competitive landscape where one's rivals are powered by inexpensive debt, businesses and individuals often find themselves compelled to rely on external funding to achieve their goals, given the world's finite resources. Those who avoid debt, whether due to prudence or preference, may find themselves disadvantaged in accessing these limited resources.

The widespread availability of debt resembles a "tragedy of the commons," originally articulated by Garrett Hardin (1968), but which can be traced back to Hobbes and Hume, who laid the groundwork for understanding the complexities of human nature and the necessity of governance in addressing collective action problems. Hobbes, in his seminal work *Leviathan* (1651), portrays humans as inherently self-interested and prone to conflict without proper governance. His concept of the social contract underscores the need for a Leviathan-like authority to enforce agreements and maintain order, highlighting the importance of governance structures in regulating behavior and preventing the tragedy of the commons. Similarly, Hume's (1740) emphasis on social sentiments and norms provides insights into the motivations behind actions that can lead to the tragedy of the commons. By highlighting the role of emotions and communal norms in shaping behavior, Hume's ideas suggest the importance of governance mechanisms in regulating resource use and preventing overexploitation. Thus, while Hardin's concept of the tragedy of the commons is a distinct formulation, it builds upon the foundational ideas of Hobbes and Hume, further enriching our understanding of collective action problems and potential solutions.

This metaphor, traditionally used to describe the overuse and depletion of shared resources, provides a useful lens through which to view the increasing reliance on national debt. The core principle of the tragedy of the commons is that individual users, acting independently according to their self-interest, behave contrary to the common good of all users by depleting or spoiling a shared resource. When applied to national debt, each individual government, driven by the immediate needs or political pressures of its own country, is incentivized to borrow more, often beyond its means. This borrowing is seen as a quick solution to finance public spending, stimulate economic growth, or address short-term crises. However, in the aggregate, this behavior leads to a collective problem: a mounting global debt burden. This increasing debt, much like the overgrazed commons, poses a risk not only to the individual countries involved but also to the global financial system. High levels of debt can lead to financial instability, reduce the ability of governments to respond to future crises, and potentially trigger a cascade of economic consequences that affect all countries, akin to the destruction of a shared resource.

This concept can be extended to understand the burgeoning national debt crisis, as Philipp Bagus explores in his book *The Tragedy of the Euro* (Bagus, 2010). In this context, the tragedy occurs when individual countries, driven by self-interest and short-term goals, accumulate excessive debt. This behavior is akin to the overuse of a shared resource, leading to its depletion. Bagus' analysis specifically delves into the European context, examining how the shared currency and economic policies contribute to fiscal imbalances and economic strains within the Eurozone, which can be seen as a microcosm of the global debt dilemma. Bagus highlights how the interconnectedness of economies, especially within structures like the Eurozone, exacerbates the issue. The shared currency and fiscal policies can lead to imbalances, where the debt of a member state impacts the entire European Union, demonstrating a clear parallel to the tragedy of the commons.

In this situation, the question arises: who will hold accountable countries that accumulate excessive debt?

The challenge is amplified by the fact that national debt also involves an intergenerational transfer of burden. Current policies for managing debt not only affect present economic stability but also have long-term implications for future generations, mirroring the conflict between short-term gains and long-term sustainability seen in traditional commons scenarios.

When dealing with debt, however, it is important to distinguish between private enterprises and nation-states in this scenario. Poor debt management in businesses typically faces market consequences, often leading to bankruptcy. In contrast, when nations engage in unsustainable borrowing, the consequences are more complex and far-reaching. Unlike private entities, countries can continue accumulating debt, often without immediate repercussions, due to their ability to tax citizens, print money, or receive bailouts. The tragedy of the commons, as applied to national debt and explored by Bagus, speaks of the fiscal irresponsibility of national governments, which translates into significant challenges to global economic policy—balancing individual national interests with the collective good, and short-term benefits with long-term economic sustainability.

The pandemic-induced crisis has led to a significant rise in public debt for numerous governments. Amidst these circumstances, the idea of debt cancellation for bonds issued during the health crisis surfaced. This proposal was initially put forth by an advisor to the Italian government and was subsequently echoed in a statement from a group of academics and politicians, including prominent figures like Thomas Piketty (Fernández et al., 2022). However, the European Central Bank (ECB) dismissed this idea, citing concerns that such an action would devalue its balance sheet assets and the common currency.

The distinctive feature of fiscal imprudence lies in the government's skill at persuading public opinion that "the current situation is special and therefore requires special measures." These measures often involve the introduction or increase of taxes, typically presented as temporary solutions. However, as time reveals, these temporary measures tend to become enduring fixtures, echoing Milton Friedman's astute observation: "nothing is so permanent as a temporary government program." The COVID-19 pandemic was cited as one of these exceptional circumstances necessitating extraordinary actions, reminiscent of Mario Draghi's 2012 declaration, former president of the European Central Bank: "whatever it takes." In the wake of COVID-19, the repercussions include massive public debts in numerous countries, the Next Generation EU initiative, and the looming threat of bond cancellations. Concurrently, the perils of excessive debt, such as the possibility of sovereign debt crises and default risks, have been extensively analyzed in academic circles, as indicated by Bagus and Howden (2015) or Okano and Eguchi (2020).

Regardless of "special situations," countries like the United States, Germany, Spain, and Italy had debt-to-GDP ratios in 2021 of 137%, 69%, 119%, and 156%, respectively (Recarte, 2023; World Bank, 2022, 2024). And this is something structural, rather than circumstantial. The citizens of these nations enjoy living standards that surpass their immediate economic means, supported not by current taxation, but by future taxes intended to service this debt. Even setting aside ethical concerns, this approach raises serious questions about long-term viability.

3.2. The Erosion of Liberties

In the evolving landscape of global economics, the role of the state has burgeoned, often portrayed as the essential actor in mitigating the supposed failures of free markets (Krugman, 2009; Mason, 2015; Stiglitz, 2010). This narrative, which gained traction over recent decades, posits that inherent flaws in capitalism or neoliberalism necessitate robust state intervention. Moreover, some authors even claim the viability of socialism (Nieto and Mateo, 2020; Cockshott, 2020). This paper critically assesses these viewpoints, particularly focusing on the ideas presented by Mariana Mazzucato (2013, 2021) and Thomas Piketty (2014), which the author deems the most dangerous due to their impact on both the academic community and public debate.

I will argue that the state, far from being an omniscient corrector of market failures, is limited by the same bounds that restrict all human endeavours: limited knowledge and the potential for error. Anchoring on Friedrich Hayek's statement that knowledge is a decentralized asset, not fully possessed by single individuals (Hayek, 1945), and his warnings against the "fatal conceit" (Hayek, 1988) of believing in the state's omnipotence, this analysis underscores the fundamental truth that the state comprises individuals with only a fraction of available information. The belief that these individuals, regardless of their expertise or intentions, can manipulate markets to improve or correct them is a step toward economic servitude and a misapprehension of the market's complexity—the true road to serfdom (Hayek, 1944).

This view, however, has many opponents, both from academia and public officials, who rely not only on the (supposed) existence of market failures that need fixing but also on emergencies such as the Great Recession or the COVID-19 pandemic. Neo-Keynesians like Krugman (2009) or Stiglitz (2010), and partisans of new economic orders like Mason (2015), are expected to demand the state become an active actor in the economy, especially during economic downturns. Moreover, it has been suggested that countries with higher welfare spending exhibit lower levels of religious adherence, indicating that individuals may replace religious support with state services (Gill and Lundsgaarde, 2004). This substitution effect raises questions about the state's role in shaping societal values and structures (Bagus et al., 2021). Additionally, the post-COVID-19 mainstream consensus leans towards the necessity of a strong state, an idea promoted by scholars like Oreskes (2020) and reflected in publications like *The Economist* (2020).

However, this paper argues that such a consensus may overlook the inherent inefficiencies and potential overreach of an empowered state, which cannot cope with the efficiencies of free markets. Historical examples, like the failed AOL-Time Warner merger, demonstrate the market's ability to self-correct. This event, initially feared for creating market dominance, ended as one of the most significant merger failures due to competitive pressures. This underscores the argument that the market effectively regulates itself without state intervention (Marquart and Bagus, 2021).

The state, paradoxically, acts as a coercive monopolist in several key sectors, including legislation, jurisdiction, and money production. This monopolistic role often leads to inefficiencies and a lack of innovation, contrary to the dynamism seen in competitive markets. Moreover, many governmental responses to the pandemic crisis highlighted the fragility of individual freedoms. The case of Dr. Anthony Fauci during the COVID-19 crisis exemplifies how state authority, when overly centralized, can induce public hysteria and panic—a scenario less probable in a society with more decentralized governance (Bagus et al., 2021). This anti-freedom statism under emergencies has drawn criticism from scholars such as Delanty (2020), Koehler (2021), and Bagus et al. (2023).

The significant erosion of liberties we witness today can be attributed, in part, to the impact of Mazzucato's *The Entrepreneurial State* (2013), *Mission Economy* (2021), and Piketty's *Capital in the Twenty-First Century* (2014). These seminal works have deeply influenced societal perspectives, embedding in the collective consciousness the notion that markets inherently generate issues like wealth inequality (according to Piketty) and that entrepreneurs tend to focus on short-term, profitable innovations, neglecting ventures requiring a longer-term perspective (as argued by Mazzucato).

Both Mazzucato and Piketty have significantly influenced European Union policies in the last decade. In Mazzucato's case, her impact can be best described in terms of the European Union's approach to innovation and economic policy, for which the concept of "Mission Economy" has become a cornerstone of the €100 billion mission-oriented research and innovation program. Likewise, it inspired the mission-oriented approach to industrial policy in the UK (more than £4 billion) and the Scottish National Investment Bank policy (£2 billion). Four expert reports have been published by the European Commission under the mission-oriented view (European Commission, 2017; European Commission, 2018; Mazzucato, 2019). Mazzucato's perspectives have shaped key EU initiatives such as the Horizon Europe program, which incorporates "missions" to tackle grand societal challenges, from climate change to cancer research. Additionally, her advocacy for a mission-oriented approach is reflected in the European Green Deal, which aims to make Europe the first climate-neutral continent by 2050. These policies demonstrate a shift towards a more strategic and proactive role for the state in directing economic activity and innovation, aligning with Mazzucato's vision of the state as a crucial actor in addressing 21st-century challenges.

Similarly, Thomas Piketty's work on inequality has deeply influenced the discourse on economic policy within the EU. His analysis of the growing disparity between capital and labor (Piketty, 2014) has informed debates on wealth taxation and redistribution across the continent. While the EU has not adopted Piketty's proposal for a global wealth tax, his ideas have reinforced efforts to combat tax evasion and promote fiscal transparency. Initiatives such as the European Commission's directives on tax transparency and anti-tax avoidance are aligned with Piketty's calls for a more equitable fiscal system. Furthermore, his critique of austerity policies and advocacy for greater fiscal solidarity have resonated in the EU's post-COVID recovery strategy, particularly in the design of the NextGenerationEU fund. Together, Mazzucato and Piketty's contributions have shaped a more interventionist policy framework within the EU, under the view that the state, with its far-reaching capabilities, is best suited to direct the economy toward achieving desired goals.

But both Mazzucato's *Entrepreneurial State* and Piketty's works, while influential, resonate because of their alignment with certain preconceptions. The discourse of the entrepreneurial state as the sole entity capable of planning long-term R&D activities is short-sighted (McCloskey and Mingardi, 2020). Private businesses, driven by the imperative to meet and anticipate consumer demands, are the primary agents of innovation in a market economy. Breakthrough innovations are not merely the result of technological advancements but are also significantly influenced by consumer response and market demand.

This dynamic is something that state-led initiatives often fail to replicate. In fact, Israel Kirzner (2000) highlights that a natural inclination towards entrepreneurial discovery and innovation thrives in a market economy, nurtured by appropriate incentives and a supportive institutional framework. This paper argues that such an environment is stifled by excessive state intervention.

Hayek's observation that the entrepreneur's role is more "social" in its interactivity than that of the engineer illuminates the essence of market-driven innovation (Hayek, 1955). The entrepreneur's task is to anticipate and satisfy consumer needs, a process inherently reliant on market signals and feedback. Governments, in contrast, often lack the agility and responsiveness essential for successful entrepreneurship. This is not a mere theoretical assertion but is borne out by the contrasting operational conditions faced by private entrepreneurs and state entities. Market economies are characterized by their dynamism and flexibility, attributes that are fundamentally at odds with the bureaucratic nature of state-driven economies. Nobel laureates Edmund Phelps (2013) and Milton Friedman (1980) criticized “social economies” for their lack of dynamism—an essential ingredient for innovation and progress (Phelps)—and various forms of government intervention, such as price controls, minimum wage laws, and subsidies, arguing that these often have unintended negative consequences (Friedman).

Turning to Piketty, his analysis of capital diverges significantly from traditional understandings, focusing not on capital in the Marxian sense or as a factor of production in the neoclassical model, but on the valuation of tangible and financial assets (Galbraith, 2014). His work, examining the distribution of these assets over time and intergenerational wealth inheritance, while insightful, often overlooks the complex dynamics of market economies and the role of innovation and entrepreneurship in driving economic growth.

In summary, this paper argues that the growing advocacy for state intervention, as exemplified by Mazzucato and Piketty, overlooks the inherent limitations and potential pitfalls of state action. While the state has a role to play, its capabilities and effects must be realistically appraised. The examples of Mazzucato and Piketty, while intellectually stimulating, should be critically examined to avoid a simplistic embrace of state interventionism.

4. Unleashing Progress: The Interplay of Creative Destruction And Human Action

In spite of the illusion of the entrepreneurial state described in the previous section, the path to recovery lies not with the government or its officials, but with a group of determined entrepreneurs, ready to invest their capital and make informed decisions specific to their contexts of time and place (Zendrini, 2023). Not in vain, periods of economic growth have been found to impact unemployment reduction and the provision of quality jobs (Parro and Reyes, 2019).

For these entrepreneurs to seize emerging opportunities, it is critical that their freedom to operate entrepreneurially is unobstructed. This means liberalizing all markets, particularly those for labour and other production factors. Removing regulations like minimum wage laws, income guarantees, and restrictions on layoffs is essential. These regulations rigidify the economy, cause unemployment, and hinder the market's dynamic efficiency, preventing the natural correction of social imbalances that arise from mismatches between factor prices and their anticipated discounted marginal value products (Huerta de Soto, 2010).

Moving beyond the traditional left-right political dichotomy, contemporary debates often focus on positions regarding free markets versus state intervention, a concept previously referred to in this paper as statism. Advocacy for free market ideals is synonymous with libertarian or liberal perspectives, which champion the unhampered pursuit of individual life goals. Research results (Aghion et al., 2013; Boudreaux et al., 2019; Morales-Alonso et al., 2023; Núñez and Morales-Alonso, 2024) indicate a strong link between economic freedom or trade openness and economic growth and entrepreneurial inclination, emphasizing the critical role of economic liberty in nurturing entrepreneurial endeavours.

For instance, empirical results from Aghion et al. (2013) in South Africa supported the positive effects of trade liberalization on productivity growth, both directly and indirectly. From a theoretical standpoint, Aghion and Howitt (2009) highlight three primary outcomes from studies on growth and trade: (1) a positive correlation between openness and growth, (2) smaller countries benefit more from trade liberalization due to either market size or scale effects, as the relative size of a domestic economy to the global market influences the gains from trade in terms of innovation or learning-by-doing, and (3) advanced countries experience less growth enhancement from openness, likely due to a knowledge spillover effect. They also note an additional trade-related growth impact: trade liberalization intensifies product market competition by bringing foreign players into domestic markets.

In the current economic landscape, the interconnection between innovation, economic growth, and entrepreneurship is increasingly significant. These innovations can stem from multinationals (Morales-Alonso et al., 2024), entrepreneurs (Morales-Alonso et al., 2022a), or the general public (Morales-Alonso et al., 2022b). As posited by Ludwig von Mises (1949), entrepreneurship is a fundamental aspect of human action, shaped by the relationship between ambitious objectives and the resources at hand. In my understanding, Mises’ emphasis on human action and purposeful behavior is central to the concept of creative destruction from Joseph Schumpeter (1934). As creative destruction involves the continuous replacement of old industries and technologies with new ones through innovation and entrepreneurship, Mises’ human action aligns with Schumpeter’s notion of entrepreneurial activities driving creative destruction. In this vein, individuals, acting purposefully and seeking to improve their own well-being, engage in entrepreneurial activities that lead to innovations. These innovations can disrupt existing industries and create new ones, illustrating the concept of creative destruction. At the same time, the subjective value theory from Mises’ human action plays a role in understanding how entrepreneurs create value by meeting consumers’ changing preferences. This is a fundamental aspect of creative destruction, as it reflects the constant adaptation of goods and services to evolving consumer demands.

The creative destruction concept is closely associated with Schumpeter’s theory of economic development and entrepreneurship, in which innovation and entrepreneurship play a pivotal role as the driving forces of economic development. Innovations take place, first, by destroying the old, meaning the obsolescence or decline of existing industries or products. When a new innovation or technology emerges, it often disrupts traditional ways of doing business and displaces older technologies or firms that cannot adapt. This can lead to business closures, job losses, and the decline of entire industries. Second, the creative destruction process evolves through the creation of the new— the emergence of new industries, products, and opportunities that result from innovation. As old industries decline, resources (capital, labor, and expertise) are freed up and redirected toward new, more innovative sectors of the economy. New jobs are created, and economic growth is fueled by these emerging industries.

In Schumpeter's theory, this is a dynamic process within a market economy, in which entrepreneurs play a central role, as the individuals who introduce and exploit new ideas, technologies, and market opportunities. They are the agents of creative destruction, as they take the risks associated with innovation and create the conditions for economic change. Although the concept of creative destruction is thoroughly cited by Mazzucato as part of an entrepreneurial state, in Schumpeter's discourse, creative destruction is fundamentally driven by individual actors, particularly entrepreneurs and innovators. It is entrepreneurs who identify new opportunities, develop innovative products or services, and take calculated risks to bring their ideas to market. They conceive, design, and implement new technologies, processes, and ideas that disrupt existing industries and create new ones. Innovation is often the result of individual or collaborative efforts in fields such as science, engineering, and business. Entrepreneurs invest their time, capital, and effort in untested and innovative ventures, which are essential for the process to occur, meaning they are risk-takers who challenge the status quo and face uncertainty. They must be adaptable in a dynamic environment, acquiring new skills and knowledge, and using existing knowledge in original ways. They must respond to consumers' preferences and collaborate with others, including the state, networks of innovators, research institutions, and other businesses.

According to Huerta de Soto (2010), the human action or entrepreneurial function as defined by Mises possesses two facets. One accounts for the creativity of the individual, who is able to create something new and successful in the markets, which corresponds to Schumpeter's creative destruction. The second is the coordination between actors when the action is executed. This second factor from human action is present in the concepts about the individual and the entrepreneur developed by Kirzner (1973), which can be contrasted with Schumpeter's theory.

For Kirzner, the entrepreneur focuses on the role of alertness to opportunities and the process of market discovery, and the subsequent coordination between actors. Entrepreneurs are individuals who recognize gaps or discrepancies in the market where goods or services are undervalued or underprovided, taking part in the broader market process, in which entrepreneurs are key agents, by identifying and exploiting these opportunities. Kirzner followed the tradition of the Austrian school from Mises, and for this reason the concept of subjective perception is also present in his view: what one person sees as an opportunity, another may not. Entrepreneurs rely on their unique insights, judgment, and knowledge to identify opportunities that are not apparent to others. Therefore, Kirzner's concept of the entrepreneur places a strong emphasis on the cognitive and discovery aspects of entrepreneurship. Entrepreneurs are not only risk-takers but also individuals who possess the ability to recognize opportunities and act on them.

While Schumpeter's entrepreneur is often associated with groundbreaking inventions and entrepreneurial dynamism, Kirzner's concept of the entrepreneur revolves around alertness to opportunities, rather than being an inventor or innovator. The primary function of the entrepreneur, in Schumpeter's view, is to bring about creative destruction, while for Kirzner, the entrepreneur serves as an equilibrating force in the market, discovering opportunities to buy low and sell high, thereby contributing to market coordination.

But how do innovation and entrepreneurship relate to inequalities? On one hand, Morales-Alonso et al. (2020) found that the existence of inequalities can foster entrepreneurial aspirations. On the other hand, the sharp increase in income inequalities found globally is not solely attributed to differences in wages, but on the ability to save, invest, and compound wealth (Schäfer, 1999)—in other words, to live on income from capital rather than from wages (Morales-Alonso, 2022). Aghion et al. (2019) attribute inequalities in the top incomes to the existence of innovation. They depart from *Forbes* magazine's enumeration of the wealthiest individuals in each U.S. state, 11 of whom are recognized as inventors of U.S. patents or owners of corporations ultimately owning patents. In my opinion, this interpretation is not well conceived. Two different ideas can be streamlined from this data. One, the existence of temporary monopolies provided by the state to exploit certain inventions ultimately generates inequality. That is, it is state intervention (through the concession of patents), not innovation, that brings inequality. Two, these 11 innovators are actually entrepreneurs who innovate (as per Schumpeter) as part of their profit-seeking process by fulfilling market opportunities (as per Kirzner). They became wealthy not because of innovation alone, but due to their ability to derive income from capital rather than wages.

At the same time, this process cannot be dissociated from the manipulation of money for political purposes. This unjustly shifts wealth towards the ruling elite, adversely affecting those who generate wealth and rely on fixed incomes. This process exacerbates economic disparities, leading to societal tensions. It also enables political powers to covertly and arbitrarily siphon off resources from ordinary people (taxpayers) without democratic approval, resulting in an unstable, debt-reliant economy governed by bureaucratic controls (Zendrini, 2023). The more the individual is controlled by the state, the closer we come to a society based on central planning, which can generate arbitrary and wasteful criteria for allocating resources (Huerta de Soto, 2006). If this is the case, there can be no sustainability of growth and development.

5. Conclusions, Implications and Recommendations for Further Research

In this position paper, the author sheds light on the root causes of an impending significant financial crisis. The paper posits that the probable economic downturn is a direct consequence of flawed fiscal and monetary policies practised over the past decades—essentially a "winter" of our own making. National governments have embraced imprudent fiscal approaches, while national and supranational monetary authorities have been crucial facilitators, propelling us towards a complex and potentially hazardous economic landscape. Presently, theories such as the entrepreneurial state and modern monetary theory are gaining traction in shaping public policy, overshadowing principles like creative destruction and the philosophy of human action.

If the economies of developed countries continue to deepen the tragedy of the commons represented by the current path of excessive spending and lack of rigor from monetary authorities, they will only be allowing present generations to enjoy living standards that are actually financed by their descendants. This unsustainable situation is made possible by the vast accumulation of public debt, which has seemed relatively inconsequential since the 2007 financial crisis due to low interest rates. The emergence of inflation and the subsequent rise in interest rates could lead to either an inability to repay this debt or, more concerning, the decision not to repay it, taken by irresponsible politicians eager to please their voters. Ultimately, this could lead to a monetary crisis of unprecedented magnitude. An evaluation of the risk of such a crisis is necessary, as its probability may be low, but the potential impact could be enormous.

Central to the ethos of Western civilization is the concept of sound money, which is pivotal not only in economic terms but also sociologically, as it supports individual freedom. Sound money undergirds the autonomy of the individual, facilitating cooperation for diverse objectives, even among those who may not share them. Importantly, sound money fosters transparency, compelling governments to account for their spending and justify tax increases without the crutch of money creation.

In periods of general economic distress, it is critical that the public sector does not divert essential resources needed by businesses and economic players for recovery. This necessitates a significant reduction in taxes, ensuring that households and businesses have maximum access to resources. Specifically, this implies a considerable easing of taxes on corporate profits and capital accumulation to encourage their retention and productive use.

To rejuvenate economic growth, a shift in focus is required—from expansive monetary and pro-cyclical fiscal policies to the restoration of public finance health. This involves optimizing public spending, lowering taxes on labor and businesses, easing bureaucratic and regulatory burdens on companies, liberalizing the labor market, and reforming the welfare system. These reforms should reassign responsibilities for pensions, healthcare, and education to civil society and local communities. The strategy advocated in this paper suggests a return to a society anchored in liberty and an economy based on capitalism, embracing private ownership of resources such as land, labor, and particularly capital goods, and their allocation via a market price system driven by innovative, profit-driven entrepreneurs.

The research presented offers valuable insights for public policy. It advocates for reducing state centralization through two main strategies. First, policy decisions should be made at the smallest possible unit of analysis, which would be closer to Swiss cantons than to European states. The "one-size-fits-all" approach is fundamentally flawed for public policy; thus, the European Union's policies imposed from Brussels, which aim to establish a common framework for over twenty different countries, will inevitably face practical implementation challenges. Second, fiscal measures should be separated from monetary decisions. The independence and rigor of monetary institutions are crucial for their credibility and to counterbalance irresponsible government expenditures.

This position paper seeks to stimulate debate within the academic community. It is crucial, as part of our social responsibility, to critically examine which ideas succeed in public policy through both theoretical and empirical approaches.

Despite its contributions, this paper is not without limitations. While praxeology offers valuable insights through a priori logical analysis of human action, its reliance on deductive reasoning rather than empirical data means its theories are not directly tested against real-world observations. Thus, although praxeology provides a foundational theoretical framework, its findings should be considered alongside empirical research and other methodological approaches for a more comprehensive understanding of economic and social dynamics.

The implications and limitations outlined suggest several avenues for further research. Confronting the arguments presented in this paper with different literature references using deductive methodologies could enhance the debate on optimal public policies. Additionally, conducting empirical analyses (despite the challenges inherent in modeling global economic variables) can offer valuable perspectives from an academic standpoint.

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