

BOOK REVIEWS

Book Review: "Principios modernos de la economía del desarrollo: Teoría y práctica"

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Principios modernos de la economía del desarrollo: Teoría y práctica

Víctor I. Espinosa

Madrid: Unión Editorial, 2023; 544 pp.

Dr. Víctor I. Espinosa's *Principios* is a comprehensive treatise on development economics from the dynamic and entrepreneurial perspective of the Austrian school of economics.¹ It is a revised version of his doctoral thesis, bearing the same title, completed at Universidad Rey Juan Carlos in 2021 under Dr. Jesús Huerta de Soto, who also wrote the prologue. While sharing the same core content as the thesis, the treatise offers more detail and depth. Espinosa's work authentically combines economic theory with practical guidance, enriching academic discussions and providing actionable insights for addressing real-world economic development challenges. This makes it a valuable resource for economists, scholars, researchers, and policymakers. Huerta de Soto praises the work, stating, "The theoretical reasoning and practical understanding incorporated into this work is a significant contribution to the discipline of economics in general and development economics in particular" (8).

The treatise offers a fresh and innovative perspective on economic development, emphasizing entrepreneurship and genuine savings as its core drivers and how institutions can shape, reinforce, or inhibit them. Entrepreneurship is the judgment of human action to achieve promises of profit. It consists of judging what a human problem is and how to solve it under uncertainty. Promises of profit are possible solutions to human problems. *Genuine savings*, a concept introduced by World Bank economists, refers to the net savings of a country after accounting for the depreciation

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¹ The Austrian school of economics is a school of thought that emphasizes the importance of individualism, human action, and the market process. It highlights the role of entrepreneurship, dispersed information, and subjectivity in economic decision-making (Boettke and Coyne 2015, 2023).

of its physical and human capital. Unlike mainstream economics, which links development to observable variables like poverty and inequality, Espinosa defines *economic development* as the widening range of solutions to human problems through continuous innovation and productivity improvements.² He highlights the importance of accumulating physical and human capital goods for sustained growth and development (Espinosa and Carreiro 2021).

Espinosa also introduces the theory of confiscation risks, arguing that threats to property rights—such as poor maintenance of public order and the rule of law, instability in state institutions and government finances, unstable monetary and credit conditions, high taxes and regulation, barriers to international trade, and other legal barriers to entrepreneurship—undermine entrepreneurial productivity and genuine savings, hindering sustainable economic development (Espinosa, Alonso Neira, and Huerta de Soto 2021). These risks lead to a mismatch between the supply and demand for solutions to human problems, ultimately reducing overall welfare. Public policies should be evaluated based on their support for or opposition to entrepreneurship and genuine savings.

The treatise is divided into three main parts, each addressing different aspects of economic development. Part 1 lays out the theoretical and empirical foundations of mainstream development literature, analyzing philosophical and historical development models and highlighting their evolution. It critiques mainstream development models’ positivism and static efficiency approach, pointing out their disregard for reality and contrasting them with empirical evidence. This section also examines foreign aid, the poverty trap, global planning, randomized controlled trials, and their effects on developing economies. It discusses the role of economists in society, critiques the problems of positivism in development economics, and suggests potential improvements to development studies from the dynamic perspective of Austrian economics.

Part 2 examines the fundamental roles of entrepreneurship and genuine savings in economic development. It highlights essential elements such as dynamic efficiency, which is understood as creating and transmitting information, and social coordination driven by entrepreneurship in the market process. It also provides an institutional and public choice analysis regarding property rights and competition, illustrating how these elements contribute to dynamic efficiency. The section also explores the nature of government interventionism and paternalism, the theory of confiscation risks, and the impossibility of the socialism theorem. This theorem, often associated with the Austrian school of economics, argues that a socialist economy, which lacks private property and market prices, cannot efficiently

² *Mainstream economics* refers to the predominant theories and methods in economics, particularly the neoclassical and Keynesian approaches (Yeager 1997; Huerta de Soto 2008).

allocate resources (Espinosa 2021; Moreno-Casas, Espinosa, and Wang 2022; Espinosa and Cueva 2024). It also examines how it contributes to unsustainable economic growth over time, affecting the actions of entrepreneurs by generating dependence on interventionism, which ultimately hinders development.

In Part 3, the treatise focuses on the case of Chile, analyzing its history and political, economic, and social conflicts through the lens of dynamic efficiency principles and in comparison to international experience. In particular, e-government—understood as the digitalization and automation of public administration to free up time and money, based on the case of Estonia, to promote trust, transparency, and security in public affairs and thereby avoid problems such as rent-seeking and crony capitalism (see, for example, Espinosa and Pino 2024). Furthermore, the author proposes a series of microeconomic reforms, such as deregulation and flat tax incentives for entrepreneurship, and macroeconomic reforms, including fiscal discipline and monetary soundness, to modernize the state and foster development through decentralized and competitive political decision-making in a market economy (Espinosa 2023). The treatise concludes with insights and lessons from Chile's experience with economic development.

The treatise represents a significant advancement compared to conventional treatises, incorporating several fundamental elements that enhance our understanding of economic development.

Multidisciplinary approach: Espinosa's treatise takes a comprehensive and multidisciplinary approach to economic development. It integrates epistemology, methodology, history, political science, sociology, and psychology, extending the analysis beyond mainstream and Austrian economics. This approach enriches the understanding of economic development, providing a more holistic view of the subject and appealing to a wide range of readers. It stimulates intellectual curiosity and engagement, making the reading experience more enriching.

Epistemological, theoretical, and empirical approach: The treatise challenges mainstream thinking and methods by criticizing the predominant methodological positivism in economic sciences. The theory of the epistemological, theoretical, and empirical levels addresses each level, reinforcing its arguments and application to the real world.

Focus on inequality and justice: The author emphasizes addressing structural inequalities and ensuring the unbiased distribution of development advantages. This entrepreneurial-centered development strategy aims to reduce poverty and promote justice. It instills social responsibility and awareness, making the audience more empathetic toward developing nations' challenges.

Critical analysis of development policies: Dr. Espinosa offers a critical analysis of development policies. He critiques these policies for ignoring the social realities of developing countries and supports this critique by observing their impacts. The treatise offers sustainable development models tailored to the long-term needs of developing nations. This critical analysis provides readers with a deeper understanding of the complexities of development economics, enlightening and informing them about the challenges and potential solutions in economic development.

Neoclassical economists often criticize the Austrian school's approach, arguing that mathematical models can effectively explain and predict market outcomes. They reject the Austrian emphasis on subjectivism, which focuses on individual preferences, and insist on the necessity of quantitative predictions using mathematics, statistics, and econometrics. Neoclassical economists believe these methods provide precision and reduce uncertainty when used to analyze hypotheses and causal relationships, thus offering greater objectivity in decision-making for economic policies, business investments, and other areas. Another major criticism from mainstream economists concerns the Austrian school's opposition to state intervention and regulation. Mainstream development literature argues that government intervention is necessary to correct market failures, stabilize the economy, and redistribute wealth, claiming that economic inequality and insufficient social protection will persist without such intervention. A crucial criticism of the Austrian school concerns its approach to pricing and the subjectivity inherent in individual valuations. Critics argue this subjectivity leads to greater volatility, complicating economic stability and planning. They contend that decisions based on subjective estimates can result in information dispersion, supply and demand imbalances, and inefficient resource allocation.

Regarding the criticism from neoclassical economists about using mathematical models and quantitative methods, the treatise acknowledges that these methods can be helpful as auxiliary and illustrative tools in economic theory. However, it argues that they cannot replace theoretical analysis of entrepreneurship and a decentralized market process. The author criticizes the dominant theory's "abuse of quantitative methods," a result of its assumption that ends and means are given and optimal resource allocation can be calculated. This approach is deemed superficial because it fails to consider flesh-and-blood human action, cannot measure people's expectations, and ignores the complex political, social, and economic context. On the criticism of state intervention, the author contends that government efforts to resolve supposed "market failures" can be dysfunctional due to cognitive biases and economic calculation problems within governments. He posits that "market failures" are better understood as coordination problems resulting from "government failures" and extractive institutions.

Regarding the criticism of price subjectivity, the treatise defends the theory that prices transmit information about the value that individuals assign to goods based on their expectations and the utility they derive. This subjective valuation is essential for understanding economic interactions and resource allocation. As noted by the esteemed economist Jesús Huerta de Soto, “The work of Víctor I. Espinosa, one of my most talented disciples, has the potential to become a classic of Austrian literature on development economics” (8).

The treatise delves into the origins of political, economic, and social conflicts and their impact on development, examining how institutional reforms can reduce confiscation risks and promote genuine savings. It emphasizes that entrepreneurship is fundamental for economic development, highlighting the need for protected property rights and legal equality to encourage long-term actions and capital accumulation, which lead to increased savings and productivity, fostering sustained economic growth. The author also underscores the importance of digitalization and automation for dynamic efficiency and transparency. The treatise also emphasizes economic education at all levels to develop necessary skills, support human capital creation, foster entrepreneurship, and equip citizens to start and manage businesses.

Finally, this treatise is essential for anyone seeking to understand the complexities of economic development. As a valuable guide for fostering an institutional environment that respects private property and promotes a market economy, it is a significant contribution to its field. The author’s ability to identify errors in mainstream economic theories and offer practical solutions applicable to any country sets this treatise apart. With a robust theoretical framework and empirical support, the Austrian theory of sustainable economic development is presented with remarkable clarity, making it accessible to a broad audience. Despite the theory’s complexity, the treatise is approachable for anyone interested in understanding the economy and making impactful contributions. This accessibility ensures that the knowledge within—an innovative and comprehensive view of economic development that addresses deficiencies in mainstream development theories—can have a widespread influence.

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