

The Meaning of “Economic Goodness”: Critical Comments on Klein and Briggeman

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Abstract

Klein and Briggeman’s condemnatory judgments (a) of this author and (b) of modern Austrian economics are interpreted as apparently attributable to a pre-analytical rejection of all *purely economic* normative discussion. Upon examination, all their *specific* criticisms readily dissolve as representing unfortunate misunderstandings or argumentation inappropriately applying *their* worldview (in which there *is* no normative role for the *purely* economic) to a quite different conceptual context. Klein and Briggeman’s revisionist doctrinal classification (resenting modern Austrian economics as *contrasted*(!) with Hayek’s work) is categorically rejected as reflecting (i) quite mistaken assumptions concerning modern Austrian economics and (ii) serious misunderstandings of Hayek’s contributions.

JEL Codes: B00

Keywords: Entrepreneurship; Coordination

I. Introduction

Daniel B. Klein and Jason Briggeman have written a troubling paper under the title “Israel Kirzner on Coordination and Discovery” (2010). Their paper may be seen as having two distinct aspects. Most of the paper consists of a series of exceedingly sharp criticisms of two papers of mine that focused on the “coordination” concept. As we shall see, these criticisms turn out either to be based on apparent misunderstandings, or simply to reflect a conceptual framework drastically different from my own. The substance of these criticisms does not identify serious flaws in the Mises-Hayek understanding of the market process, as my work has attempted to elaborate it. But this aspect of the Klein-Briggeman paper (which I will henceforth, with no disrespect intended, call K-B) is perhaps less significant than the second aspect. Even if K-B’s criticisms *were* valid, it would be necessary to point out certain serious intellectual pitfalls contained in their paper. This is because their criticisms are embedded in an

idiosyncratic doctrinal-history framework (relating particularly to the Austrian tradition in modern economics). It is this framework that is the paper's second aspect.

Now, although doctrinal history can certainly be written from more than one point of view, and it is therefore not easy definitively to demonstrate the invalidity of any particular perspective, I must, in all candor, confess to finding K-B's doctrinal history to be bizarre. Moreover, that doctrinal history appears to be based on several factual historical assertions or assumptions (including characterizations of my own work) that I personally know to be mistaken. Despite my genuine respect for Professor Klein and Mr. Briggeman, I believe it is important to alert the reader of their paper to what I can only describe as the peculiarities of their position.

The present paper is organized as follows: In Section II I take up critically the doctrinal-history framework reflected in K-B. In Section III I critically refer to K-B's insistence on a discipline in which all pronouncements are "loose, vague and indeterminate," with no "100%" statements permitted. In Section IV I provide a review of the principal features of that portion of my work criticized by K-B. This review is perhaps needed because K-B's summary of my positions is not, in my view, an adequate presentation of those positions. Section V is a brief section in which I demonstrate how K-B's positions seem to flow out of a worldview quite different from that held by most economists (whether Austrian or not). I shall show, based on this section, how K-B's attacks on my work flow naturally from their own worldview (and thus really do not constitute relevant criticism of my work, within its own worldview). Finally, in Section VI, I go through a long list of K-B's criticisms, in the order in which they appear in their paper, showing, I believe, that these criticisms readily dissolve – especially when adequate attention is paid to the conceptual context within which my work was presented.

II. Must Mises Go? (Or, "The Meaning of Modern Austrian Economics")

We may present K-B's doctrinal history as based on the following series of positions:¹ (1) There are today a number of economists who see themselves as continuators of an Austrian economics tradition

¹ In the first paragraphs of this section, it seems less confusing to cite references to myself as if in the third person.

that began with Carl Menger but reached its high point in modern times (in their view of themselves) in the work of Mises and Hayek. (2) These economists “are motivated to advance classical liberalism” (K-B, p.42) and see an Austrian uniqueness in this objective. (3) Two of Mises' followers, Rothbard and Kirzner,² have seen this libertarian uniqueness as inseparable from the Misesian praxeological framework (i.e., a framework that sees economics as a value-free series of logical deductions derived apodictically (i.e., with complete certainty) from the a priori human action postulate. (K-B, p.3) (4) Klein and Briggeman challenge the notion of defending classical liberalism on the basis of a supposed praxeological economic science, and see the possibility for such an economic defense to exist only in a looser, more pragmatic intellectual tradition, which they identify with Adam Smith and Edwin Cannan. Hayek, they maintain, belongs in *this* tradition, and is not to be seen as associated with today's self-described Austrians (i.e., with Misesian praxeologists³). (5) Kirzner “has been committed to building a distinctive Misesian science of economics” (K-B, p.5), and this is the root of Kirzner's errors in regard to the role of “coordination in advancing the cause of classical liberalism.” In this commitment to a Misesian science of economics, Kirzner has vainly attempted to marry such a science to Hayekian insights into the richness of knowledge. While the thrust of Kirzner's defense of classical liberalism can be salvaged, his work is marred by his commitment to Misesian praxeology. Any salvage job done for Kirzner's work can preserve that which is true and important in his coordination teachings – but it is “doubtful that they remain distinctively Austrian” (K-B, p.48). In other words, if what is valuable in Kirzner's work is to be retained, the influence of Mises in that work must be dropped. (6) Since Mises must be dropped, modern Austrian economics must, to the extent that it depends on Mises, also be dropped.

The above (bizarre though it may appear) is, I believe, a fair summary of the dogmen-geschichtliche framework in which K-B offer their critique of my work on coordination. But several of the numbered positions listed above are quite erroneous. It is incorrect to

² Kirzner is described as having been “captivated”(!) by Mises ever since the 1950s (K-B, p.4).

³ K-B recognize that Rothbard and Salerno see Hayek as importantly different from Mises, but for reasons unrelated to K-B's position.

claim (as in position (2) above) that modern Austrian economists see their science as primarily motivated to advance the cause of classical liberalism. K-B may dismiss the possibility of a wertfrei economics (just as others, such as Rothbard, have often dismissed such a possibility). But I can assure them that *as an ideal* many modern Austrian economists do see themselves as seeking *objective* understanding of economic processes. The circumstance that it turns out that such understanding demonstrates distinct economic advantages for a classical liberal society does not, in principle, nullify the need to ensure that the public does not dismiss such demonstrations as motivated by ideologically based preconceptions.

It is astonishingly incorrect to see (as is held in position (3) above) my own work as inseparable from the Misesian system of praxeology.⁴ The truth is that I have, since my earliest scholarly work, attempted to distinguish Mises's understanding of economic processes from the epistemological framework in which Mises himself developed that understanding. I have for decades maintained that it is possible to appreciate that understanding *without* committing oneself to Mises's overarching praxeological framework. Whether one wishes to accept that epistemological framework or not need not determine one's acceptance of the Misesian understanding of the market process. The next section of this paper includes my substantive observations concerning Mises's praxeological framework. Here the point is that *no* acceptance of that framework is required in order to appreciate Mises's deep insights into the nature of the market process. It is *this* conviction that has led me (and other modern Austrian economists) to appreciate that while Hayek certainly did *not* accept Mises's epistemological framework, it *is* emphatically the case that Hayek's understanding of the dynamically

⁴ In a paper by Daniel Klein and Aaron Orsborn (Forthcoming), we find the following amazing (and utterly erroneous) statement: "the Austrians, particularly in the line of Israel Kirzner, have tried to fit claims about the coordinative properties of entrepreneurship and free markets to methodological ambitions of Ludwig von Mises for axioms, apodictic certainty, categorical deduction and the like and, we argue, have illegitimately read Hayek into their group...". (This statement is followed by a reference to my 2000 book, *The Driving Force of the Market*, and also to the K-B paper here under examination.)

While the paper presently being discussed does not include language quite so explicit, the reference (in Klein and Orsborn) to the K-B paper makes it clear that K-B's intent is entirely similar. The discussion in this paper should, for the record, establish this writer's complete rejection of this misreading of his work.

competitive market process is fundamentally identical with that of Mises. If (as is indeed of course the case) Mises's substantive insights have decisively shaped modern Austrian economics, this thus turns out to have molded modern Austrian economics along lines that have gained enormously from Hayek's work on competition, knowledge, and spontaneous coordination. Although K-B do not appear to say so explicitly, their paper strongly suggests that the substance of my own work does not derive importantly from Hayek's contributions. My numerous references to and citations from Hayek, they clearly imply, are merely "spurious" attempts to win, for my Misesian ideas, the imprimatur of a more widely respected economist.⁵ I can, however, assure the readers of K-B that my understanding of the dynamic market process does derive very largely from Hayek. (As I recall, it was in fact Mises who, when I was a graduate student, first directed me to read Hayek's (1949) classic, pioneering paper, "The Meaning of Competition.") In fact, it was only my appreciation for Hayek's work (on the role of markets in the dissemination of knowledge) that enabled me to grasp the significance of Mises's focus on the market as an *entrepreneurial* process. To recognize all this is to see the complete invalidity of elements in position listed as (5) above (as well as the invalidity of elements in position (4) above).

Modern Austrian economics finds its roots in Mises and Hayek not for any "praxeological" foundations, but for the insights and understandings to be found in their work concerning the nature of the market process.⁶ Any economic defense of classical liberalism that fails to appreciate these Misesian-Hayekian insights must necessarily resort to the kinds of "modernistic" neoclassical arguments that K-B rightly reject. To reject modern Austrian economics on the grounds of imagined or real flaws in Mises's praxeological framework is, as explained, totally to misunderstand the

⁵ K-B imply this most distressingly in regard to my belief that Hayek (often) uses the term "coordination" to mean what I call, in this paper, "dovetail coordination." The truth is that my references to Hayek in this regard, besides having the purpose of exploring his thought, have also had the simple purpose of *acknowledging* an important intellectual source of my own understanding.

⁶ It is for this reason that I have for many years strongly objected to the wedge that Rothbard and Salerno (and now K-B for entirely different reasons) have sought to drive between Mises and Hayek. (See my paper "Reflections on the Misesian Legacy in Economics," republished in Kirzner (2000).)

nature of the Mises-Hayek provenance of modern Austrian economics.

III. Mises, Hayek, and 100% Austrian Insights

In the following I discuss K-B's unhappiness with "100%" statements. However, I must insist on doing so strictly within a framework that sees economics (and especially Austrian economics) as, at least in its ideal conception, a search for objective truth, not as a series of arguments in support of particular ideological conclusions. Parts of K-B suggest (as noted above) that this is not the way they view economics. But, unless they recognize that Austrian economists do see their discipline as, in principle, not committed to any given conclusions, there is no scope for any disagreements, and no room for useful discussion of our differences. (It would be as if K-B were arguing against "100% statements" only in contexts *other* than those in which Austrian economists might possibly be making such statements.)

To modern Austrian economists, i.e., those who have drawn most of their economic understanding from Mises and Hayek, there clearly are statements that *can* be made "100%" and those that cannot. By and large it is in the area of *applied* theory that 100% statements cannot be made. The "pure" theory (that is being applied in making statements about the real world) may, however, certainly enunciate abstract truths that refer, in principle, to all conceivable situations. If, indeed, K-B wish to outlaw all such 100%, categorical statements of pure theory, they would be the continuators of a long (but not particularly glorious) tradition denying, in effect, any role for pure economic theory in attaining understanding of economic phenomena. K-B seek to drive a wedge between Hayek and Mises in regard to the latter's emphasis on 100%, categorically-certain statements in economics. They lead the reader to believe that Hayek would never agree with Mises on role of logical deduction and "apodictic certainty" in developing a "distinct science of economics" (K-B, p.3). But it should be noted that, in fact, Hayek – for all his very real differences with Misesian epistemology – certainly *agreed* with Mises on *this* issue. The following clear statement of Hayek's sounds, indeed, almost identical with precisely that Misesian understanding of the nature of the theory to which K-B object so vehemently. Referring to a certain proposition in rent theory, Hayek wrote that it, "*like all propositions of economic theory, is a statement about the*

implications of certain human attitudes towards things and as such necessarily true irrespective of time and place" (1955, p.32, emphasis added).⁷

It is certainly true, of course, that in applying economic theory to real-world situations, the "necessary" truth of theory cannot be relied upon to generate what K-B call "100%" categorical statements. The complexity of the real world ensures that events result from the confluence and interactions of many disparate chains of cause and effect. Austrian economists, including both Mises and Hayek, have (along with all other economists) always recognized this fundamental feature of applied economic theory. This does not mean that economists can only make statements about the real world that are necessarily "loose, vague, and indeterminate." It simply means that, in order to offer usefully authoritative understanding of real world events, applied economists must fill their ("necessarily true") abstract theoretical propositions with concrete content expressing thorough and sapient empirical information.⁸

Before concluding the present section of this paper, it may be useful to comment briefly on the phrase (cited two paragraphs ago) by Hayek in which he refers to "the implications of certain human attitudes." Our comment will further cement the commonalities linking Hayek to Mises, and will at the same time throw further light on the sense in which Mises (and Hayek) see economic theory as being logically derived from initially accepted ("axiomatic") foundations. What we wish to highlight is the simplifying role of *economic insight* into the meaning of otherwise complicated economic concepts (or reality). Take, for example, Hayek's path-breaking interpretation of market equilibrium. Such equilibrium means that:

...the foresight of the different members of the society is in a special sense correct. It must be correct in the sense that

⁷ I have elsewhere (see Kirzner, 1979) carefully explored some of both the disagreements and the commonalities between the economics of Mises and that of Hayek. I urge the reader, before uncritically accepting K-B's sweeping statements asserting a *fundamental* schism between Mises and Hayek, to read that paper.

⁸ It is here that the undoubted epistemological differences between Mises and Hayek have their scope. Although Mises would certainly agree with the *principle* (expressed in this sentence of our text), he would have disagreed with Hayek as to the *level* at which empirical information must be introduced. It is here that Hayek felt that Mises was claiming "a priori" foundations for statements that Hayek believed can be made only on the basis of empirical observation (such as on the nature of the learning process).

every person's plan is based on the expectation of just those actions of other people which those other people intend to perform and that all these plans are based on the expectation of the same set of external facts so that under certain conditions nobody will have any reason to change his plans. *Correct foresight is then not, as it has sometimes been understood, a precondition which must exist in order that equilibrium may be arrived at. It is rather the defining characteristic of a state of equilibrium.*" (Hayek, 1949, p.42, emphasis added)

To attain this *insight* into the meaning of equilibrium, Hayek had to engage in drawing out the implications of our understanding of how individual market participants will react to discoveries of hitherto unknown information concerning prices, goods availabilities, and production possibilities. The insight thus attained is neither loose, vague, nor indeterminate – it is illuminating (precisely for its *not* being loose or vague).

Take, as another example, Mises's brilliant insights into the nature of the entrepreneurial role, and, in particular, into the nature of pure, entrepreneurial profit. He writes (1962, p.109): "What makes profit emerge is the fact that the entrepreneur who judges the future prices of the products more correctly than other people do buys some or all of the factors at market prices which, seen from the point of view of the future state of the market, are too low." In this profoundly perceptive sentence Mises has simply pursued the logical implications of the foundational axiom that market participants pursue their goals purposefully based on their expectations concerning production possibilities, input prices and product prices. Yet he has, in this insight into the meaning of pure entrepreneurial profit, shed brilliant light on the theoretical category that has puzzled and confused the most eminent of economists for two centuries. These insights, once they are recognized, are seen as inescapably valid (yes, even "apodictically" so) – yet these insights do *not* depend, I would insist, on that epistemological framework within which Mises saw his work as being nested.

With this understanding of the character of Mises-Hayek theoretical insights, we are *almost* ready to consider the numerous criticisms that K-B have aimed at my work. But it will be helpful, I believe, to preface such a consideration with a fairly lengthy series of general observations (in Section IV) concerning my work that will

show us (in Section V) how K-B occupy a conceptual universe, and have adopted certain semantic usages, which seem to have generated a host of misunderstandings, on their part, of features of my work. Once we have listed the central elements of their conceptual and semantic usage (and have pointed out how far these elements place them from the conceptual universe occupied by most economists in the history of the discipline – and certainly of this writer) – we will find that their criticisms will already have dissolved. This writer knows full well that there may be serious errors in portions of his work, and that, in a career spanning close to five decades, there is a significant chance that many inconsistencies and infelicities may be discovered. But the barrage of criticisms contained in K-B turn out, at best, we shall see, simply to reflect their idiosyncratic view of the role of the economist, the character of his discipline as they see it, and the terminology that they have chosen to adopt.

IV. Entrepreneurial Profit and the Coordination Concept: A Preliminary Observation

Even before we attempt to identify and deal with K-B's criticisms, certain general features of their discussion need to be examined with a critical eye. K-B object to certain statements concerning coordination found in my work. They make it seem (a) as if the central theme of my work as a whole has come to focus on these statements concerning coordination, and that (b) the arguments that emerged from my work and that tend to support the economic case for classical liberalism, stand or fall, in my view, with the validity of the mentioned statements of mine concerning coordination. (Accordingly, since K-B very sharply disagree with my statements concerning coordination, *and* at the same time very much wish to retain an economic case for classical liberalism, they are very much concerned to (have me?) repudiate those statements.) But the truth is that neither the above point (a), nor the above point (b), are in any way correct.

Pure entrepreneurial profit certainly does play a most central role in my work (and it is quite true that I do see the winning of pure entrepreneurial profit as a move toward coordination [in my sense of the term]). But it is *not* the case that I place heavy doctrinal weight on the normative coordination concept itself. The normative coordination concept is far from being at the center of gravity of my economic understanding. Nor is it at all the case that I believe the

coordination concept to be a clear-cut analytical tool already able and ready to serve as an “Austrian” welfare criterion. I have more than once pointed out the practical and theoretical difficulties that must hobble any facile attempt to deploy the coordination criterion in the appraisal of specific economic policies. So that I write this paper under protest, so to speak. I will be responding to the K-B criticisms of my statements concerning coordination, but wish most definitively to declare that this defense should *not* be read as concurring in the exaggerated importance (in my view) attached by K-B to my discussions of coordination. Unintentionally (but nonetheless most regrettably) the undue emphasis reflected in the K-B critique distorts the role played by coordination in my understanding and appraisal of the market process.

1. The Coordination Norm: Some Clarifying Remarks

It is at the outset necessary to clarify a number of confusions which appear to underlie K-B’s unhappiness with my work and their understanding of Hayek’s references to coordination. K-B rests, I shall point out, on a number of failures on their part to recognize certain distinctions and terminological ambiguities. In the following I discuss (a) the relationship between (what K-B call) “concatenate” coordination, and the “decentralized” coordination concept that I (and, I believe, others) have suggested as possibly serving as a normative criterion (I myself believe that a more transparent term for K-B’s “concatenate” coordination would be “central planner’s coordination.” However, in the following I retain K-B’s “concatenate” terminology.) and (b) the two separate functions that the “decentralized” coordination concept can play, viz. (i) at the positive level, and (ii) at the normative level.

a. Coordination – “Concatenate” or “Dovetail”?

When the furniture, draperies, and pictures on the wall are chosen for a room and arranged to create a pleasing overall pattern, we refer to this act of arranging as “coordination.” K-B wish to use the term “coordination” (when applying it to an economy, say a market economy) in this way. Of course, to use the term “coordination” in this way implies, first, that what is considered “pleasing” refers to the preferences of some central entity (some “mind” whose preferences are to count). In applying this concept to society, this “mind” may be seen as a “fictitious mind,” or as society

seen in some sense as an “organism” (K-B, p.7). Second, use of the term coordination (in this “concatenate” sense) *locks one in to the normative level*. There is no “positive” meaning to the notion of concatenate coordination, since its very essence is the “pleasing,” “desirable” character of the chosen pattern of arrangement. At the outset of our discussion, let me make it absolutely clear that, *provided that all the above is borne in mind*, I have *nothing* whatever against social commentators’ choosing to focus upon concatenate coordination in attempting to describe what markets achieve. At the same time, of course, it should be emphasized that if such a social commentator, with one set of values, lauds the market for achieving (what seems to him to be) concatenate coordination, members of his audience, who may be embracing a sharply different set of values, may justifiably remain unimpressed.

The alternative usage for the term “coordination” is that for which I propose the appellation “dovetail coordination.”⁹ This terminology is designed to emphasize that, in referring to coordination in my work, I have had in mind a criterion entirely different from K-B’s “concatenate coordination.” “Dovetail coordination” refers to the extent to which independently acting participants in a society are inspired to take those actions that correctly anticipate the actions of others in that society. For example, students in a dental school undertake their arduous course of training expecting that, during the years ahead, others will consume desserts that will generate cavities, so that there will be prospective dental

⁹ K-B appear (p.18) to have failed to grasp Hayek’s meaning in his use of the verb “dovetail.” This verb has very little to do with the intermeshing of feathers “so as to produce the curves of the tail” (p.18). My dictionary (*Webster’s New World Dictionary of the American Language*, 1951, p.437) illustrates the word “dovetail” by a diagram showing two pieces of wood, one with a wedge-shaped projection (called a *tenon*), the second with a corresponding indentation, called a *mortise* (into which the tenon fits). As a noun, the word “dovetail” means the joint formed by the insertion of the tenon into the mortise. As a transitive verb, the word means “to join or fasten together.” The verb is also more generally used as meaning “to fit together closely or logically.” When Hayek refers to the knowledge possessed by individuals to enable them “to dovetail their plans with those of others” (1948, p.79), he was referring purely to their making decisions which correctly anticipate and take advantage of the decisions made by those others. He was clearly *not* referring to the achievement of any overall *desirable pattern* of societal arrangement. If prospective dentists train to fill cavities, but consumers decide not to consume cavity-generating desserts, these decisions have failed to dovetail – quite apart from the overall desirability of a society with sound teeth but unemployed dentists.

patients prepared to pay for dental care. (Correspondingly, (i) confectioners are gearing up to produce delicious, cavity-inducing desserts, and (ii) consumers indeed consume these desserts, with the expectation that, if necessary, dental practitioners will be prepared to treat their dental problems for appropriate fees.) (It is the “dovetail” coordination to which, I believe, Hayek was, at least part of the time, referring in his use of the term “coordination.”) Notice that *this* coordination concept has *positive meaning* quite apart from the overall desirability of such a coordinated state of affairs. In this respect, it is therefore quite different from K-B’s concatenate coordination (which, as discussed, has meaning *only* in the context of the preferences of some central planner, or a fictitious mind, or society-viewed-as-an-organism). One may smile or groan at the thought of dental patients being treated by skilled dentists (who might, after all, have become life-saving physicians...). But, even one who frowns at a pattern of social resource allocation in which the efforts of confectioners entail the services of dentists (and who would, therefore, in the “concatenate coordination” usage of the term, pronounce such a society *discoordinated*) – can recognize that these sets of independently-made decisions do smoothly fit into one another. These independent decisions *dovetail*. One may not necessarily attach moral significance to such dovetailing (in which case “dovetail coordination” will not serve well as a normative criterion). But, even where the notion of dovetail coordination carries no normative implications, dovetailed decisions are, at the positive level, coordinated.

To sum up the preceding paragraphs: “Concatenate coordination” (the type of coordination to which K-B wish to restrict all discussion) has meaning *only* at the normative level. “Dovetail coordination” (the notion which I, following other economists, have suggested as possibly able to serve as a normative economic criterion for the appraisal of alternative societal arrangements) has meaning *also* at the positive level.¹⁰

¹⁰ K-B cite me as referring to certain statements by Hayek that clearly refer to dovetail decisions, in the sense of the interlocking of decisions (made independently by different individuals). K-B (correctly) point out that in these statements Hayek was referring to the equilibrium concept, and does not mention coordination in these statements. Now, as noted earlier, one of Hayek’s seminal insights was to “see” that the notion of market equilibrium is to be *defined* in terms of the correct mutual foresight (which enables independently-made decisions to

b. "Dovetail Coordination": Positive and Normative!

We have emphasized that "dovetail coordination" (unlike "concatenate coordination") has meaning at the positive level. We wish now to emphasize that the term dovetail coordination *may*, possibly, *also* refer to the normative level. (We feel it necessary to emphasize this because, as we shall see, K-B *seem* at crucial points in their discussion, to forget this.) Now, to say that the term (dovetail) coordination may be used normatively is, of course, to suggest that there is something about (the positive phenomenon of) (dovetail) coordination that is "desirable." Traditionally, economists have struggled to tease normative conclusions from their positive, strictly objective theories. Early economists used aggregate wealth as a normative measuring-rod. Later, welfare economics hoped that aggregate "economic" welfare, or "efficiency," could serve such a function. And so on. Economists who saw dovetail coordination as a possible normative criterion, recognized that (like "efficiency") such a criterion is restricted to the *economic* dimension of society. "Efficiency" may be in the service of horrifically immoral goals; the decisions that may be dovetailing with one another may be morally abhorrent decisions. But *qua* economist, the economist might, just possibly, be able to declare one societal arrangement *economically* "better" than a second arrangement, in terms of the extent to which they respectively promote or impede mutual dovetailing of decisions – while still pointing out that there are many more dimensions to the notion of "the best" than the purely economic.

Now, to pronounce one societal arrangement as "better" than a second (even along one dimension of goodness), is implicitly to have adopted a particular standard as a normative criterion *for society*. So that, in emphasizing that dovetail coordination *may*, possibly, serve as such a normative criterion for society, one *is transcending the individual level* and making pronouncements at the supra-individual level. This

interlock). In other words, one of the great contributions of Hayek was to recognize that equilibrium *is* what we have here in the text called the *positive* sense of the term "dovetail coordination." There was no *need*, in discussing the positive notion of market equilibrium, to use the term "coordination." The term "coordination," while it *does* have a positive sense, does certainly project the flavor of normative "goodness." But, having so clearly seen and emphasized the positive state of affairs, which *we* have labeled "dovetail coordination," it is rather obvious that when Hayek referred to "coordination" as a desirable achievement for society, he was referring precisely to that state of correct mutual foresight, upon which the dovetailing, the interlocking, of decisions depends.

certainly introduces those subtle dangers with which Hayek was grappling in the early 1930s (cited by K-B, p.7). One is making (an *economic* appraisal) of a societal arrangement from the level of a "fictitious mind," or of society seen as an "organism" – with all the dangers lurking behind these terms. The *positive* sense of the term "dovetail coordination" requires no such supra-individual perspective. But the *normative* sense of the term certainly does. I emphasize this rather obvious point because K-B's discussion seems to argue that Hayek's references to society-as-an-organism, to a fictitious mind, etc., are proof positive that he could not possibly have been referring to dovetail coordination, but *must* have been referring to concatenate coordination. But, as we have seen, such an argument would be quite mistaken.

2. *Pure Entrepreneurial Profit as an Expression of Prior (Dovetail) Discoordination*

It will be useful at this point briefly to review the basic ideas that I have emphasized, and with which K-B are so unhappy. This is necessary because K-B's report of the ideas they are criticizing fails to present them clearly (or even entirely accurately). It will be helpful to focus on the notion of pure entrepreneurial profit.

Pure entrepreneurial profit manifests itself when a specific item can be purchased in the market at a total price lower than the price at which that item can be sold ("elsewhere") in the same market. (A particular case of pure profit – but a case exemplified innumerable times! – is where *all* the necessary ingredients needed *to produce* a product and deliver it for sale can be obtained at a total cost lower than the price at which the product can be sold in the same market.) Now, the availability of this surplus (of selling price over buying price) seems, to the economist, (and, as my classroom experience revealed, to beginning students in economics), to defy explanation. Why should anyone sell at a price lower than the price obtainable elsewhere in the same market?! Why should anyone buy at a price higher than the price at which the item can be bought elsewhere in that very same market?! (Our emphasis on this being in "the same market" is in order to point out that the surplus is not to be explained as the cost of obtaining the relevant price information; such price information is, in a given market, costlessly available.) The usual economic explanations for apparent surpluses do not work here. Usually what *appears* to be a surplus is in fact attributable to a

specific *cost* (such as where some time must elapse between the buying and selling transactions, calling for the need to borrow capital to finance the buying transaction, or where transportation is needed to bridge the distance between the buying location and the selling location). But *pure* entrepreneurial profit can, by its definition, not be "explained away" in such a manner. (*All* necessary costs have already been included in the [lower] total purchase price.) The only "explanation" for the phenomenon of pure profit is, "of course," simple ignorance – ignorance that (as noted above) is not "justified" by the cost of obtaining information. The ignorance referred to here is, while *the* explanation for pure profit, itself *unexplained*. Some, at least, of the buyers are not aware of the decisions being made by some sellers. This ignorance, must, by its very nature as "unexplained and unexplainable" ignorance, be *unknown* ignorance, – that is, the ignorant market participants are wholly unaware of the fact that they are ignorant of easily available, highly useful, information. This "unexplained" ignorance is thus, in a sense, "inexcusable" ignorance; there is no justification for it. I have referred to such ignorance as "error" (to distinguish it from the kind of ignorance resulting, for example, from a deliberate decision not to learn the French language. Where one has *decided* not to learn French, because to do so costs too much to make it worthwhile, his ignorance is no error at all.)

Now the first discoverer of the gap between the above referred-to two prices for the same item is the entrepreneur able to win the available pure profit. The seller (who sold to the entrepreneur at the low price) and the buyer (who bought from the entrepreneur at the high price) will, when they realize what is happening, "regret" their earlier ignorance. They will be unable to "excuse" that ignorance by reference to any costs of learning – since no costs were needed in order to know what they did not know. (Obviously, they need feel no *moral remorse* for their earlier "error."¹¹ And, in fact, the entrepreneur-discoverer of the available surplus may [as K-B correctly point out] feel only elation and pride at his profitable discovery, rather than remorse at not having "seen" the surplus earlier.) Nonetheless, it *is* useful to use the terms "error" and "regret" (if preferred, in quotation marks) in order to underline the circumstance that, until the entrepreneur-discoverer sees the light, until the "light-bulb" *has*

¹¹ See my discussion of all this in Kirzner 1992 (p.21f). See also below in this paper, (p.75f).

flashed in his mind..., *the situation was a discoordinated situation* (in the dovetail sense of this term.) The sellers, who were selling only at the unnecessarily lower price, were unaware of the existence of potential buyers, who were under the impression that they can obtain the item only at what-turns-out-to-be an unnecessarily high price. Every true case of pure entrepreneurial profit availability thus reflects an existing absence of full (dovetail) coordination. This existing state of discoordination may, of course, last a long time. It may be seen, by superficial observers of the state of society, as a benignly stable situation (such as may have been the case in the horse-and-buggy age, before the discovery of the profits available through innovating the automobile.) It follows, therefore, that the entrepreneur-discoverer who moves to exploit the "surplus" that he discovers, is generating a dovetailing among otherwise uncoordinated potential decision-makers. The changes in market conditions generated by such entrepreneurial activity may certainly be seen (and perhaps *deplored!*) as "disruptive" of the earlier surface placidity and stability of market conditions and relationships. But it cannot, surely, be denied that these "disruptive" changes express the new dovetail-joints being forged, now, between hitherto uncoordinated potential decision-makers. (Observers who feel that the "disruption" is too high a price for society to pay for the dovetail coordination thus achieved are entirely free to register their preferences...).

K-B dislike much of the terminology used in the above exposition. They *are* entitled to use words in the ways *they* wish to use them. But the circumstance that, *in their terminology*, the conclusions reached in the above exposition would require revision *in terminology employed*, does not render these conclusions mistaken in any way. As we shall see, much of the K-B criticism turns out to be an exercise in semantics which does not affect the validity (in my opinion) of the conclusions reached in the above exposition.

V. Goodness and Economic Goodness: A Tale of Two Worlds

At times in reading K-B, one glimpses that they are not merely talking a different language than most other economists (and certainly than this writer), but are operating in an entirely different conceptual universe. The following observations identify by letter a number of key features of this universe.

A. One respect in which their universe is a distinctive one appears to be responsible for much of K-B's displeasure with my

work. This has to do with the distinction between what is “good for society,” on the one hand, and what is “economically good for society,” on the other hand. K-B *seem* unable to make any sense of such a distinction. (On this see K-B p.35f, and further in the present paper, p.81f.) And this inability *seems* to reflect a refusal to recognize the possibility of identifying purely *economic* chains of cause and effect in social affairs, that can be disentangled, at least at the level of theory, from extra-economic streams of causation. (If I have misread K-B in this regard, I readily apologize for such misreading; the following is based on my best effort at attributing coherence to K-B's positions.)

For K-B the term "coordination" implies *overall* "goodness" of social phenomena. The "fictitious mind" who smiles at "concatenate coordination" in society, does so from a perspective that takes *all* relevant values into account. This seems, in part, to explain K-B's intolerance towards the use of "dovetail" coordination as a norm, and their apparent inability to recognize that *my* use of this norm has a far more modest goal in mind. It is this apparent inability that is perhaps the explanation for what I have described as their exaggeration of the importance to be attached, in *my* system of normative analysis, to dovetail coordination.

But the truth is that intellectual honesty (not to speak of intellectual modesty) requires economists to recognize the limited (albeit crucially important!) reach of their science. There *are* purely economic chains of cause and effect¹² in society. And economists *have* always felt that their science can provide society with normative guidance – enabling them to warn, say, that protectionism, or monetary inflation, or price controls, are economically harmful. All of these policies *may* conceivably result in significant ("non-economic") benefits for society. But the professional responsibility of the economist requires him to point out how each of these policies must tend to generate outcomes that, from the purely *economic* perspective, are "undesirable." The problem faced by economists over the past two centuries and more has been to articulate the precise sense of the term "economically undesirable." Economists who have identified (what we have termed) "dovetail coordination" as a possible norm, have thus identified, not a criterion for “goodness,”

¹² My book *The Economic Point of View* (1960) demonstrates how this was recognized by economists since the very beginning of their discipline in the eighteenth century.

but a criterion for "purely economic goodness." There is nothing, in adopting dovetail coordination as an economic norm, preventing the economist from recognizing, in particular situations, how what is economically desirable for society may in fact be socially *undesirable* from a broader moral perspective. K-B appear unwilling or unable to accept this distinction.

B. One particular facet of this unwillingness or inability, is, as noted earlier in this paper, K-B's *apparent* assumption that "dovetail coordination" cannot be a social norm altogether (but rather merely a purportedly objective description of certain economic situations). Because they are unable to conceive of a purely economic notion of societal goodness, they are apparently forced to see dovetail coordination as a theoretical construct having meaning only at the positive level. Only this, one surmises, has enabled them to conclude, from Hayek's references to a fictitious social mind, or to society as an organism (and the like), that he was necessarily thinking of "concatenate coordination" (rather than, as I believe was often the case, of "dovetail coordination").

C. A further facet of K-B's unwillingness or inability to accept any notion of purely economic goodness for society is their apparent unconcern with the basic problem, which has, as noted above, preoccupied would-be normative economists for more than two centuries. This problem, of course, is how (if at all!) it may be possible to show *from the perspective of objective science* that a particular policy is bad for society. K-B have no compunctions, it seems, in using "concatenate coordination" as a useful norm with which to elicit "smiles" from a fictitious mind representing society as an organism – regardless of the frowns which many members of society may display at any particular pattern chosen for its concatenate coordinative properties. K-B brush aside any aspirations toward "objective" assessment of "scientific goodness" with the same disdain with which they seem to denigrate the very notion of an objective science of economics (see K-B, p.45-46); see in particular their dismissal of the economists' attempts "to separate grammar and aesthetics" (K-B, p.46).

D. We may note yet a further corollary of K-B's apparent refusal to recognize an objective science of pure economics. This is their unwillingness or inability to recognize the sense in which every case of pure entrepreneurial profit necessarily expresses the existence of a prior economic "tragedy" in which economically regrettable errors

have been made. Wherever the same item can be purchased and sold at different prices (in the "same" market) – and this includes all cases in which a bundle of factor services can be purchased for a total cost lower than the price at which their product can be sold – those who have sold at the lower price have obviously "erred" in not selling at the available higher price, etc. etc. A society in which such opportunities for pure entrepreneurial profit have, thus far, escaped notice, is a society that is, from the purely economic perspective, one "waiting to explode." Admittedly, those who have "blindly" continued their activities in the horse-and-buggy industries (even though their resources *could* have been more profitably deployed in an automobile industry) – may not "blame" themselves for not having been more prescient or more alert. (And I would readily grant K-B a possible point were they to complain that in some of my work I may have used terms such as "error" or "regret" without making it sufficiently clear to the casual reader that I was using this terminology in a purely "economic" context.) But K-B's apparent inability to recognize the obvious truth of our observations in regard to dovetail coordination and pure entrepreneurial profit stems, it would seem, from their inability to divorce purely economic "error" from broader notions of "mistake" and "error." Such broader notions cause remorse and call for penitence. No such moral sentiments need be caused by the kinds of error we have identified with unexploited opportunities for pure profit.

E. One final feature of the worldview we have attributed to K-B has to do with their refusal (K-B pp.37-39) to understand why, for the pure economist, there must be a sharp analytical distinction between (a) questions of dovetail coordination *within* a given framework of property rights, and (b) questions of social choices *between* alternative rights frameworks. Questions regarding dovetail coordination *have no meaning* in the absence of some *already-given* rights framework. For K-B, who can see no distinctive realm for purely economic chains of analysis and causation (because they focus *only* on the *overall* relative goodness of alternative social scenarios), it must indeed seem frustrating to be told that the (dovetail) coordination criterion is irrelevant as between alternative moral/legal frameworks. But for the economist steeped in the mainstream economics tradition as distilled by Lionel Robbins and Ludwig von Mises, such a limitation (on the uses of dovetail coordination) appears altogether obvious (and important!).

The worldview that we have attributed to K-B is, of course, not a new one. There is a long list of writers on economics who have, for a century and a half, deplored mainstream convictions concerning the distinctiveness of the pure science of economics (as opposed to the integration of economics with other social disciplines). Some of these writers have also rebelled against mainstream attempts to distinguish sharply between positive economics and normative economics. A number of K-B pronouncements seem to be re-incarnations of such earlier rebellious positions. In particular one is reminded of a fairly prominent article of three-quarters of a century ago in which R. W. Souter (1933) bitterly attacked the first edition of Lionel Robbins' book, *The Nature and Significance of Economic Science* (1935).¹³ Robbins had identified the scope of pure economic science in terms, not of the specific kinds of goals pursued in economic activity, but of the allocative problems that inevitably arise in the human condition (in which scarce [given] resources are to be deployed in order to satisfy unlimited [given] ends). This abstraction (from the concrete nature of the goals pursued) incurred Souter's wrath. He described this as Robbins' "positivism." It was for this "crime" that Souter apparently identified Robbins as a "juggler with a static verbal logic," and a "profane sunderer of 'form' from 'substance'" (p.384ff). Souter appears to accuse Robbins (and the Austrians?) of a display of instincts that are "corruptly sophisticated," involving the bartering of the Mecca of "economic biology" for the mess of pottage of an illusory "static precision."¹⁴ Robbins referred to Souter's attacks in the "Preface to the Second Edition" of his book (1935). He wrote: "I have read Professor Souter's strictures with interest and respect... I am not convinced by anything that he says about what he calls the "positivism" of my attitude... I part company with him in [my] belief that it is possible to [transcend "the rather trite generalizations of elementary statics"] without sacrificing precision and without regarding the essential static foundations as useless" (1935, p.xi-xii) There appears to be much

¹³ Robbins' book (1st edition, 1932) was written largely under the influence of the Austrian School of the late 1920s (and in particular shows the influence of Mises).

¹⁴ On all this see Kirzner, *The Economic Point of View*, (1960) pp.121-122. These pronouncements by Souter seem to be echoed in K-B's apparent assertion that a separation between scientific economics and social-moral decisions "is false and unnatural" (K-B, p.46), or their apparent belief that in matters of economic policy it is impossible to "separate grammar and aesthetics."

(both in substance and in bitterness of tone) that is shared by Souter's scathing attack on Robbins, with K-B's criticisms of this writer.

VI. Addressing Specific Criticisms

In this section I address the *specific* criticisms that K-B have advanced against statements which I have made, or positions which I have taken, at various times in my work. I take these up in the order in which they appear in K-B.

A. K-B cite statements of mine which they claim "run together two perspectives that entail different sets of sentiments. One perspective [involves] fulfillment and...disappointment. The other perspective regards retrospectively the chosen path as opposed to some could-have-been alternate path [involving] affirmation of the choice one made and...regret..." (p.12). I can only point out that this important distinction was not merely *highlighted* in my "Knowledge Problems and their Solutions: Some Relevant Distinctions" (Kirzner 1992, ch.10), but was emphasized there in order to advance arguments and positions which K-B themselves cite (disapprovingly) elsewhere in their paper (K-B, p.30f). I should also point out that my sensitivity to the distinction here referred to makes me wary of using the language that K-B elsewhere use in describing the extent to which they do agree with my positions. They write: "it is appropriate to focus on successful entrepreneurial action..." (p.10). The term "successful" (which they use a number of times) fails to note that the entrepreneurial actions that I describe as "coordinative" are those that capture "pure profit" (i.e., they are not merely characterized by "fulfillment of plans," avoiding "disappointment"). By using the ambiguous adjective "successful," K-B prevent readers from appreciating the difference between routine actions, which are carried out as planned, and the imaginative, innovative actions of entrepreneurs who have discovered as-yet-unexploited opportunities for pure profit.

B. K-B (p.20) strongly disapprove of my use of the term "error" in regard to situations that have made possible the winning of pure entrepreneurial profit. When Crusoe realizes that spending time building a boat is more useful than simply spending that time catching fish, he has not, K-B argue, realized that he has, up until now, erred. He will not necessarily regret his earlier actions. Quite the contrary, K-B argue, Crusoe may look upon his new discovery (of

the profitability of boat-building) with "gleeful pride" (not with regret at the past "errors").

I can only ask the reader to recall our discussions in this paper (p.69f) where I have explained the justification for using the term "error" in the sense disapproved of by K-B. (See there also for the reference to my very explicit discussion (Kirzner, 1992, p.21f) of the special sense in which "error" need *not* imply carelessness, negligence, or blameworthiness.) K-B may have semantic grounds for deploring this special use of the term "error," but an expression of disagreement on semantics does not constitute a substantive criticism – far less a demonstration by K-B of "error" on my part.

C. K-B point out that "entrepreneurial discovery often upsets people's plans" (p.21) (thus being discoordinative). As K-B note, I have dealt with this contention more than once. Our discussion earlier in this paper (p.69f) should have made clear the sense in which the entrepreneur who buys at a low price and sells at a higher price has brought into dovetail coordination those who had hitherto failed to sell (because they were not aware of being able to sell at the high price) and those who had hitherto failed to buy (because they were not aware of being able to buy at low prices). As a result of the entrepreneur's profit-winning moves, others in the market find their plans frustrated. Some had planned to sell only at prices that were "too high" – because they were not aware that mutually gainful (as yet unexploited) opportunities for trading were "waiting" to be taken advantage of. Their plans – made in ignorance of the true situation – are frustrated. The frustration and disruption of plans made over-optimistically is certainly a disappointment to those too-optimistic planners, but such disruption and frustration have *nothing* to do with dovetail coordination or dovetail discoordination. Someone who confidently expects to dovetail one piece of wood (which he possesses), with another piece of wood which he *thinks* he possesses (but really does not) – will be disappointed at the disruption of his plan. But he has not failed to create his planned dovetail joint – there was simply no dovetail joint to be made (since he possesses only the one piece of wood). Perhaps K-B's rather surprising inability to recognize this rather simple insight is attributable to two aspects of their "worldview" (outlined in the preceding section of this paper): (i) They insist on using terminology (such as "concatenate coordination") that takes into account the pain of disappointed participants of the market (even where this pain has resulted from

their earlier unawareness of the true state of the market). They resolutely refuse to restrict attention to "purely economic" (i.e., dovetail) discoordination. But it is surely wrong to criticize one writer's analysis of the results of dovetail coordination (to which he explicitly confines his attention) on the basis of a quite different concept of coordination. (ii) They have failed to recognize that the use of "dovetail coordination" as a norm relies on the same supra-individual ("fictitious mind") evaluative construct for its appraisal of market decisions. Surely it must be recognized that a benign, omniscient "fictitious mind" observing sellers refusing to sell at lower prices (only because they were unaware of the true state of the market), while perhaps indeed not "smiling" at the pain of these frustrated sellers (who had confidently, but vainly, expected to be able to sell at much higher prices), may yet possibly be pleased by entrepreneurial actions that, as rapidly as possible, teach the true conditions of the market (thus enabling the achievement of more "dovetail" joints).

D. On the criticisms of K-B (p.23-25), see above this section, under A. I take K-B's statement (p.24) "So Kirzner's 'takes into account' can do the work necessary to get II to imply III" to be a kind of concession in this regard.

E. K-B's critical discussion (p.25-26) of a scenario used in an essay of mine (involving the coordination of traffic moving through an intersection of two roads) appears, once again, to be unaware that my use of "dovetail coordination" as a norm does imply a "fictitious mind" (i.e., a supra-individual perspective) looking down on the totality of the traffic pattern, and seeing how (even though individual drivers may not realize it) there *is* a way in which individual driving plans can be better (dovetail) coordinated.

F. In their paper (p.28) K-B cite a number of situations ("monopolistic... speculative... misleading advertising... exploitation of ignorance" etc.) that they believe demonstrate that profitable entrepreneurial activity may be "discoordinative." Several points should be made in regard to this part of their discussion. (i) Much of their discussion *seems* to be based on their use of the concatenate coordination norm. But it would surely be incoherent to deploy that norm to criticize statements of mine that are being made strictly in terms of a quite different evaluative norm! (ii) K-B themselves (p.35) cite a paper of mine (Kirzner, 2000, Ch.4) in which I very carefully explain how (in situations included in K-B's list of supposedly

discoordinating entrepreneurial actions) the market *is* coordinative (in the dovetail sense). By "monopolistic situations," for example, I refer to a specific initial pattern of resource ownership that gives a particular seller freedom from certain avenues of competition.¹⁵ One may have possibly valid moral qualms concerning that initial assignment of resource ownership rights. But (as shown in the above-cited Kirzner, 2000, Ch.4), *given* that pattern of ownership, the market does tend to (dovetail-) coordinate. K-B's inability to see this seems, once again, to stem from their refusal to distinguish a strictly economic perspective from a broader social evaluative perspective (which might be expected critically to scrutinize the property-rights system in any society under examination). See also above (p.73f).

G. In the above-quoted list of entrepreneurial profit situations that K-B believe to be discoordinative, they included "exploitation of ignorance." Now, given the framework of my "dovetail coordination" discussions, this situation, like the others in the list, offers no problem for my work. One may, from an ethical point of view, disapprove of one person gaining from ("exploiting") another's ignorance. One may indeed disapprove of a college professor making his living by "exploiting" his students' ignorance. Perhaps K-B have even more egregiously exploitative cases in mind. But the point we have been making is that the dovetail coordination criterion must perforce be deployed only within a *given, accepted* system of rights. So long as the accepted rights system recognizes the college professor's right *not* to have to freely present his knowledge to all who might seek such knowledge, his livelihood expresses one kind of "dovetailing." The entrepreneur who wins pure profit by taking advantage of his alertness, while it is true that he is, in a sense, "exploiting" the ignorance of others, is yet, within the accepted rights system, moving in a coordinative manner.

Let me recognize, however, that the economist, even the theorist of entrepreneurship, *must* grapple with the ethical questions surrounding pure profit. After all, *every* case of pure profit is a case where an entrepreneur takes advantage of his being the *first* to discover the possibility of buying at one price and selling at a higher price. We may, as explained, set aside K-B's assumption that exploitation of ignorance is discoordinative. (That is, we may set aside this assumption insofar as concerns dovetail coordination.) But

¹⁵ See also Chapter 12 in Kirzner (2000).

the pure ethics of pure profit, while in a sense outside the economic theorist's field of expertise, does pose questions that demand his attention. Is it really the case that the capitalist system, based as it is on freedom for entrepreneurs to win pure profits where they believe they have discovered them, depends for its heartbeat (and certainly for its dovetail coordinative properties) upon a questionable pattern of behavior? It is one thing to claim that pure entrepreneurial profit-making is coordinative; it is quite another to maintain that such profit-making is ethically defensible. I have indeed explored this issue extensively (Kirzner, 1989, Ch.5-7; Kirzner, 2000, Ch.6). As it turned out, I was, I believe, able to throw significant light on the ethical issues, precisely because I was able to deploy purely economic insights relevant to the ethical issue.

H. I trust that the above discussions dispel the confusions apparent in K-B's repeated references to *The Communist Manifesto* (K-B, p.29-30). Their treatment of this matter suggests that K-B believe that the case of this Marx-Engels work is a decisive proof of (or at least a decisive illustration of) the untenability of my thesis that profitable entrepreneurial action is necessarily coordinative in the dovetail sense. But this K-B contention is an amazing one. (Its fallacy has been indicated above in this section (under F), but because K-B single this case out for special attention and emphasis, it warrants some additional comment.)

K-B's contention that *The Communist Manifesto* is discoordinating (despite, precisely because of, its successful commercial publication) clearly depends on their use of the term "coordination" in the concatenate sense – and is therefore *entirely irrelevant* to the dovetail coordination norm. The doctrinal errors contained in the Manifesto, like the possibly pernicious effects of alcohol, tobacco, or other addictive substances, have *nothing to do* with the issue of where there is a dovetail coordination linking those who ("mistakenly") desire to consume these items, and their potential suppliers. It should not be necessary to reiterate the simple truth taught to beginning students of economics, that the efficient market surely does very often satisfy desires that many may consider harmful, or immoral, or otherwise disastrous.

I. K-B (p.30-32) question the meaningfulness of a distinction I depend on in one of my papers (Kirzner, 1992, Ch.10). This distinction is that between "markets" and voluntary "institutions." The distinction is a simple and obvious one. What emerges *in a*

market is a pattern of activities and phenomena (*including* institutions) hammered out through the dynamic competition of market participants, each of whom may be motivated by the lure of pure profit, in the sense of buying and selling at different prices. Institutions (which are simply arrays of mutually reinforcing expectations – e.g., the use of a common language, or a common system of measurement, “because” everybody speaks this language or uses this system of measurement) typically do not arise as the result of arbitrage-like activity involving opportunities to buy and sell at different prices. It is true that all human action is “entrepreneurial” in the broader sense, but not all voluntary human action in society involves commercial interaction. It is true that where institutions emerge within a market setting, they are, in part, shaped by the profit-seeking activities of market participants. But the social process by which one particular set of mutually reinforcing expectations emerges is itself not the product of arbitrage-like activity. The institutional development discussed in the above-cited paper is non-commercial (and therefore, I argued in that paper, is not able to demonstrate the spontaneously coordinative properties we have learned to see in commercial activity).

J. K-B (p.32) offer the case of a "tourist trap" as an example of discoordinative "successful entrepreneurship." "Suppose a tourist trap sells tourist items at terms which, say, we know the consumer is very likely to quickly discover were bad terms. Suppose most such buyers will presently feel ‘ripped off.’” I do not really know which precise case we are being asked to consider. There are two possibilities: Either the prevailing legal system accepts the legitimacy of such sales, or it does not. In the latter case, "ripped off" consumers are like the victims of highway robbery. (I am grateful that K-B did not cite highway robbery as an example of discoordinative successful entrepreneurship under capitalism.) If, on the other hand, the legal system accepts the legitimacy of what K-B call tourist traps, then one finds it difficult to understand why such cases are fundamentally different from cases in which a consumer buys a book to read (*not The Communist Manifesto*) or buys a ticket to a game or a play, or buys a meal in a restaurant – and afterward finds himself disappointed by his experience.

K. K-B (p.32) refer to cases of speculative bubbles, or of "low-quality first mover leading to lock-in." Now K-B appear, once again (see above this paper p.63f), to have exaggerated the significance of

the insight that profitable entrepreneurship is always coordinative. They appear to read this insight as claiming that *all voluntary activity* in markets leads to improved outcomes. I do not believe that I have made this claim. I point this out, not because the cases cited by K-B cannot possibly be interpreted as consistent with dovetail coordination, but because it is clear that K-B cite these cases simply as examples of where a benign fictitious mind representing organic society, would not smile at outcomes resulting from voluntary entrepreneurial activity. But while all this may be relevant for concatenate coordination discussions, it has very little, if anything, to do with dovetail coordination. (Note that our observation here certainly does *not* support K-B's suspicion (p.34) that wherever K-B identify an event as dis-coordinated, I would engage in sophistry to turn that event "into an instance of some entrepreneur not having acted successfully"!)

L. K-B (p.35), after studying my works carefully, get the feeling that "coordinative" is necessarily built into successful voluntary entrepreneurship...by Mises's dictum of human action." They suggest that I "twist coordination talk... as needed so as to maintain that successful voluntary action in the market is always coordinative."

One can only reiterate that the term "successful" is highly ambiguous. As K-B themselves elsewhere correctly insist (see above p.75), there is a difference between (a) successfully completing a given plan, and (b) completing a plan that exploits a profitable discovery. Much voluntary action in markets, even though such action may be "successful" in the narrow sense of having been carried out as planned, may consist in using resources in low value projects (when high value possible projects remain unexploited because they have as yet not been discovered).

M. K-B question (p.36) the usefulness of a distinction between "economic goodness" and "some larger goodness." They apparently concede that there "might be merit" in such a distinction, but suspect that I make this distinction only in order to be able to maintain "100% claims." I trust that the extensive discussion earlier in this paper (pp.70-74) will suffice as a response to this point in K-B's list of criticisms.

N. K-B criticize my statements to the effect that the (dovetail) coordination norm cannot help in evaluating alternative "policy regimes" (p.37). I have dealt (above, Section V, *E*) with this issue. Here I can only reiterate that the notion of dovetail coordination has

meaning *only* against the background of a *given* rights framework. K-B cite (p.37-38) a discussion of mine referring to this rather obvious notion. I simply do not grasp what difficulty they have with it. At the same time I do readily recognize (see the next paragraph in this section) that there is a troublesome ambiguity surrounding the term "change in policy regime." But this brings me to the next "specific criticism."

O. K-B (p.39) write that while I *say* that dovetail coordination does not enable one to distinguish between policy regimes – in fact, I do precisely that (for example, when I cite the economic disadvantages of imposed price ceilings.) Now let me freely acknowledge that it is certainly not always obvious whether a specific piece of government intervention in the free market is to be interpreted (a) as obstructing freedom of commercial action *within* a *given* rights system, or (b) as a *change* in the rights framework itself.¹⁶ I believe that price controls are usually treated as obstructing freedom of commercial action *within* a given property rights system. I have, I will grant, often worried about this issue. To the extent that *any* governmental action is to be interpreted as a change in the rights structure, we would, in all honesty, have to stop criticizing such actions as (dovetail) discoordinative intervention in the market system. It is because, I believe, most people would *not* endorse such an interpretation, that I believe the (dovetail) coordinative norm does have something to contribute. K-B's critical remarks do not reflect sensitivity to these issues.

P. In their paper (p.41), K-B argue that rent controls should not, in *my* terminology, be blamed for discoordination. The "disadvantages of rent control involve the deadweight loss from curtailed quantity transacted and the mal-allocation of the units that are transacted. In what way do these problems fit Kirzner's characterization of coordination?" Since the "law expunges opportunities that would exist in the absence of the law," the rent control cannot be blamed for Kirznerian dovetail discoordination.

I do not quite know what to make of this observation (other than what was freely acknowledged in the preceding subsection, O). To the

¹⁶ See a brief passage in a paper of mine (Kirzner, 2000, Ch.4, p.83-85) in which I note critically that the literature on the so-called "economic analysis of rights" has unfortunately seriously blurred the important difference between the social processes leading to the crystallization of a rights framework, and the market processes which are happening *within* such a framework.

extent that the outer trappings of property ownership are still, in principle, in place, rent controls certainly do block the discovery and exploitation of opportunities for mutual benefit. There *are* potential tenants who *would* be prepared, if necessary, to pay higher rents for apartments were they to be made available. And there *are* potential builders of housing who *are* able to discover building resources that might profitably be turned into rental housing. These potential sets of tenant and landlord decisions are *not* being permitted to discover one another. Simply to say that law has "expunged" all such opportunities is (unless in the sense discussed in the previous sub-section) to miss the entire meaning of dovetail coordination.

VII. Conclusion

K-B are fully entitled to live in their conceptual world. I do not doubt that they find that world intellectually and morally attractive and meaningful. This world has its own terminology and its own tools of persuasion. This writer, however, at least in regard to his training and work as an economist, came to see the world in a quite different intellectual framework. The terminology appropriate to *this* worldview is one shared not only by modern Austrian economists, but, to a very large extent, also by most economists of the past century or so. I have attempted to address the many criticisms that K-B have leveled at my work, *not* in order to establish the sole acceptability of the worldview which that work expresses and reflects, but as an attempt to show how, *from the perspective of this worldview*, the criticisms dissolve. I remain respectfully and completely tolerant to K-B's world of discourse;¹⁷ I invite Dr. Klein and Mr. Briggeman to accord me similar courtesy.

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¹⁷ As explained in the opening pages of this paper, however, I sharply disagree with K-B's reading of the place of modern Austrian economics in the twentieth century history of economic ideas.

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