

## A Comment on Klein/Briggeman and Kirzner

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### Abstract

This paper is a comment on a debate between Israel Kirzner and Dan Klein and Jason Briggeman on the meaning of Kirzner's work on coordination and its implications for policy. It suggests that, although Klein and Briggeman have gotten some aspects of Kirzner incorrect, nevertheless they make an important point in indicating real limitations as to how much purely positive economics can say about policy.

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It is a privilege to be asked to comment on such an interesting debate as the present one, involving economists whom I respect greatly, concerning a question as important as how much the theory of purely positive economics can say about vital policy issues facing real-world political actors. As such, I want to thank Edward Stringham for granting me this opportunity. When I first was asked to contribute to this volume, I must admit to experiencing some “felt uneasiness”: what would *I* have to say on this topic that wasn’t already said better by one or the other of the main protagonists involved here? But after giving careful thought to the challenge of Klein and Briggeman (who, henceforth, following Kirzner, I will refer to as K-B) to Kirzner’s position, as well as the response of the latter, I came to believe that I might be able, after all, to offer a perspective on this debate that at least provides more substance than would my remarking, “Wow, will you watch them go at it!” The cause of this (partial) alleviation of my uneasiness was that, the more I contemplated these two papers, the more I found myself occupying somewhat of a middle ground between the two opposing camps;

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specifically, while I was agreeing with Kirzner regarding many of the particulars under contention, nevertheless I continued to think that K-B were on target in their general critique of the usefulness of purely economic arguments in guiding policy choices.

Let me, then, first address the matter of how I see my own understanding of this debate more or less aligned with Kirzner's perspective. I do not wish to rehash every point about which Kirzner believes that K-B have misread him (or, sometimes, have misread other economists), as he is a fully capable defender of his own views, and I generally agree with his specific analyses of most of the topics he addresses. I will bring up just a few of these issues as examples because I hope to have something of interest to say about them, and because each of them struck me as problematic in K-B's paper even before I had read Kirzner's response.

My first example concerns K-B's contention that Kirzner's work has essentially tried to join the economics of Mises and Hayek with duct tape and chewing gum, writing, for example (p.1), "We argue that looseness is inherent in the economic discussion of the most important things, and associate that viewpoint with Adam Smith. We suggest that Hayek is much closer to Smith than to Mises, and that Kirzner's invocations of Hayek's discussions of coordination are spurious."

However, Kirzner disputes K-B's portrayal of a wide gulf separating the economics of Mises from that of Hayek:

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 competitive market process is fundamentally identical with that of Mises. (pp.58-59)

Although here I agree with Kirzner that Mises and Hayek shared similar visions of the nature of the market process, I suggest that even Kirzner overstates the difference between their understanding

of how economics is to proceed; consider the following quote from Hayek:

What I see only now clearly is the problem of my relation to Mises, which began with my 1937 article on the economics of knowledge, which was an attempt to persuade Mises himself that when he asserted that the market theory was *a priori*, he was wrong; that what was *a priori* was only the logic of individual action, but the moment that you passed from this to the interaction of many people, you entered into the empirical field. (1994, p.72)

What I glean from Hayek's statement is that he saw himself as differing from Mises not over the nature of "the pure theory of choice" (which Mises called praxeology), but over its scope, which Hayek understood to be narrower than did Mises. (Oddly enough, K-B cite this passage, but do not seem to recognize that it represents a partial *acceptance*, rather than an outright rejection, of Mises' *a priori* approach on the part of Hayek.) Nevertheless, Kirzner's basic point stands: Hayek's understanding of the market process is basically Misesian, as he himself acknowledges, for instance, in the very next paragraph after the above quote, commenting that "I accept nearly everything of his criticism of socialism" (1994, p.73).

The next example of my "Kirznerian leanings" in this debate that I wish to take up is K-B's criticism of Kirzner's use of the terms "error" and "regret" to describe the recognition of one's failure to arrive at some possible entrepreneurial insight earlier than one, in fact, did. K-B write:

Indeed, if Kirzner maintains that every entrepreneurial discovery implies preceding error and hence disappointment and/or regret, then humanity must be a lugubrious lot, for they often look back on their preceding actions with a better interpretation of the information they had had. By making his claims categorical, Kirzner boxes himself into identifying error (and hence disappointment and/or regret) in any previous action that one would revise based on one's *later* interpretation of the information. But such talk will often simply do violence to our language. (pp.20-21)

Here, I believe that K-B have failed to appreciate that, for Kirzner, “error” and “regret” are “terms of art,” and are not being employed with their everyday (psychological) meanings in mind. Now, it may, in fact, have been a mistake on Kirzner’s part to choose words that do ordinarily carry psychological baggage, and it would be fair to criticize that choice. Nevertheless, in my reading of Kirzner, it has been clear to me that he was *not* attempting to portray the psychological state of all or even any entrepreneurs at the moment they perceive a hitherto overlooked opportunity to better align the factors of production with consumer demand, but was merely noting that, given that the opportunity existed prior to the insight, it would have been preferable to have had it even earlier, and that the entrepreneur, should the question be put to him, “Would you, all other things being equal, rather have seen this opportunity yesterday rather than today?” will answer, “Of course.” The entrepreneur in question may be a serene Buddhist monk who would regard extreme privation with complete equanimity, yet, in so far as he chose to engage in economic action at all, he would have preferred to seize the profit available to him sooner rather than later. The fact that he is still serene in the face of this “error” is irrelevant to Kirzner’s point here.

Finally, on the Kirzner side of my ledger, I wish to discuss K-B’s distrust of what they call the “100% claims” put forward by Mises, and, as they also see it, Kirzner, which I view as a misapprehension of “philosophical economics.” Now, it is true that Mises, with his talk of “apodictic certainty” (a phrase that appears numerous times in *Human Action*), could sometimes give readers the impression that his conclusions were immune to all questioning and doubt. (I have not detected that tendency in Kirzner’s work.) But I believe that the genuine truth contained in Mises’ apriorism is not that his findings were irrefutable, but, given that “action” is a philosophical concept and in so far as there is a core of economic science that is inseparable from that concept, then the conclusions of analysis dealing with that core can only be refuted by philosophical, and not by empirical, means. Mises himself acknowledges the possible fallibility of praxeological reasoning when he writes, “With regard to the results thus obtained only two attitudes are possible; either one can unmask logical errors in the chain of the deductions which produced these results, or one must acknowledge their correctness and validity” (1996, p.25). Mises’ declarations about “apodictic certainty,” which have disturbed so many otherwise sympathetic readers, should all be

qualified with the caveat, “these conclusions are certain in so far as every bit of praxeological reasoning involved in reaching them is flawless.” R.G. Collingwood, quite independently of Mises, of whom he was probably unaware, presented a similar, and in some respects, I think, superior, argument for such “apriorism” in his 1925 essay, “Economics as a Philosophical Science,” in which he writes, “a pure or philosophical economics would consist of the analysis of this special [economic] type of action and its implications; and, finally, that the ultimate or fundamental problems of economics are soluble only by abandoning any attempt to solve them empirically or inductively, and dealing with them according to their true nature, as philosophical problems to be approached by philosophical methods” (1925, pp.163-164). (Collingwood did not, by the way, try to deny a respectable place at the table to what he called “empirical economics.”)

So why, despite my agreement with Kirzner on the details, am I inclined to side with K-B on the larger issue at stake? The answer is that I think they are correct in asserting that considerations of “dovetail coordination” can provide very little genuine guidance toward resolving most actual disputes about which of various proposed roads public policy ought to travel, and also on target in indicating “concatenate coordination” as a more reliable guide. Now, Kirzner certainly does not hold the position that positive economics can resolve all or even most issues of public policy; he cautions “that intellectual honesty (not to speak of intellectual modesty) requires economists to recognize the limited (albeit crucially important!) reach of their science.”

However, he is inclined to allow that science significantly more reach than are K-B. For example, concerning the legal imposition of rent control, K-B write:

Under rubric II, there is no way to see those problems as either a lack of fulfillment or compatibility of plans or expectations. People expect rent-controlled rates, they expect shortages, queues, and so on. Nor is there any regret on the part of market participants. As for rubric III, the well-recognized discoordination does not involve any missing of profit opportunities. The law expunges opportunities that would exist in the absence of the law. The standard analysis does not involve any unexploited opportunities. Kirzner has

no basis in his characterizations for calling the well-recognized harms of rent control “discoordination.” (p.41)

Kirzner responds:

To the 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. (pp.83-84)

Kirzner is certainly correct in noting that neither the intention nor the effect of rent-control laws is to abolish private ownership of apartments by landlords. Nevertheless, I believe K-B’s analysis is basically sound. For one thing, from the point of view of economic actors who would be inclined to bid higher than the legal rent for controlled apartments in order to obtain them, the situation is not essentially different than if an earthquake had wiped out the units in question; for their purposes, unless they are prepared to skirt the law, the opportunity to acquire those apartments has been “expunged” just as thoroughly as if they had been destroyed.

Secondly, ownership of some piece of property, as most people and all existing legal regimes of which I am aware see it, does *not* entail unlimited freedom on the part of the owner to do anything at all to anyone who enters onto or interacts with his possessions. For instance, while a restaurant owner enjoys great latitude over how to operate his dining establishment, that does not mean that he is entitled to, say, sleep on a table at which some of his patrons are enjoying a meal. Such a course of action would, quite rightly in my view, be seen as a gross violation of the implicit contract he has entered into with diners by opening a business and calling it “a restaurant.” Similarly, the rights of a landowner to do as he pleases

on his land do not extend so far as to permit him to peremptorily gun down an otherwise innocent hiker who wanders across his property line by accident. In other words, even under a fairly robust understanding of property rights, the owner of a piece of property is enjoined from exercising his general dominion over the use of that good in ways that are regarded as violating some other principle of justice, in so far as, say, the errant hiker's right to life is seen as trumping the shotgun-wielding landowner's (still valid) right to bar uninvited guests from using his land.

If one accepts that the rights of an owner of a piece of property to do with it and on it as he sees fit must be balanced against other aspects of just action, then the desirability of any proposed or existent measure restricting the freedom of action of a landlord with respect to her tenants may be viewed as a question of what constitutes just behavior in such situations. For instance, I may be in (legal and just) possession of a gun and feel I have a knack for pulling off assassinations, for which I would like to be paid, and there may be numerous potential consumers of such a service, were I to provide it. We can imagine circumstances in which a consortium of dozens of individuals ardently wish that some one person should cease to be amongst the living, and that no one at all would miss the potential victim if he were gone. My murdering him would most likely not fit in with *his* plans, but since there are so many more people whose desires would be met if my envisioned service were available to them, it does not seem unjustified to claim that the overall level of "dovetail coordination" would be raised by permitting (at least some) murder-for-hire. Nevertheless, I'm sure that Professor Kirzner, one of the most decent and moral human beings I have had the privilege to know, does not bemoan the fact that our legal system blocks "the discovery and exploitation" of such "opportunities for mutual benefit."

To be fair to Kirzner, he admits:

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. (p.82)

Now, it is probably the case the average voter casting a ballot for rent control is not thinking about the issue beyond being struck by the notion, “Hey, it would be great if future increases in the rent *I* pay were minimized,” or, perhaps, “Gee, I sure would like to support downtrodden tenants from the depredations of greedy landlords!” But such people are unlikely to be moved by our discussion of dovetail and concatenate coordination however it is resolved. However, when it comes to more thoughtful advocates of such policies, I suspect that Kirzner is incorrect, and that, if pushed to articulate their views on the matter, would indeed ground that support on the need for “a change in the rights structure,” specifically, on what restrictions they understand the pursuit of justice to call for in regards to the freedom of landlords to do as they wish with their property. In other words, what they wish to do is precisely to redefine the property rights each party enjoys in housing rentals, rather than accepting the existing system of rights but tinkering with its outcomes. “Landlords,” as I envision these thoughtful proponents of rent control arguing, “are entering into a very special relationship with their tenants, quite unlike, say, that of a video-store owner who rents a customer a movie, or a innkeeper who rents vacationers a room for the night – landlords are providing tenants with their *homes*, with a sheltered place to call their own, the possession of which is a necessary prerequisite for most people to lead a decent life in human society. As such,” they might go on, “landlords, by their own free choice, have entered into a relationship requiring of them greater concessions to the welfare of their customers than is required of someone selling slices of pizza or a night at the movies. In particular, it is simply *not just* for a landlord to abruptly dislocate a family with young children, or an elderly couple, from the home they love and the neighborhood representing the heart of their social life, just because some wealthy investment bankers have recently decided that the apartment is in an area that is now a desirable or trendy place to live.”

Such an argument does not strike me as being, *prima facie*, absurd. Nor does it represent a wholesale denigration of the importance of property rights, but instead, a claim that here is one more concern against which a respect for those rights ought to be

balanced. And, I think, someone making a case for rent control along such lines is unlikely to be dissuaded by any demonstration that her proposal entails sacrificing certain opportunities to achieve “dovetail coordination.” (Consider how few people would be moved to endorse allowing the above, hypothetical instance of contract killing even if they were persuaded that permitting it would increase the “total amount” of mutual plan fulfillment.)

Therefore, I believe that K-B are correct in asserting that, to defuse such a proposal, it is necessary to appeal to something like what they term “concatenate coordination,” or what thinkers in the classical tradition of political theory might have called “the well-ordered polity.” For instance, a libertarian wishing to discourage the passage of rent control legislation, but recognizing that the strongest case for its adoption is based on an appeal to the enhanced concatenate, rather than dovetail, coordination it is thought to promote, might respond to our imaginary advocate described above by saying, “Your concern for the welfare of tenants and your desire to enhance their sense of security about having a home is admirable. However, the legislation you propose won’t achieve your aims nearly to the extent you believe, but it will have other consequences that you neither intend nor desire. It will create an adversarial relationship between landlords who perceive the opportunity to earn higher rents and tenants who rely on the new law to thwart those possibilities. It will result in many people who would otherwise be happy to surrender an apartment and take advantage of otherwise preferable accommodations hanging on to a rental unit for years simply because it is rent controlled. It will result in leaseholders covertly subletting apartments and capturing the difference between the controlled and the uncontrolled rent that more justly should accrue to the landlord. And it will result in political lobbying and corruption as owners seek to adjust the rules for their own benefit and politicians fill their campaign coffers by accommodating them.”

Now, it might be suggested that, in offering the above argument as an example of an apropos libertarian response to the rent control supporter, I am, in fact, adopting Kirzner’s position. After all, isn’t it precisely the fact that the proposed legislation thwarts otherwise available opportunities for achieving dovetail coordination that leads to the undesirable activities presented as countering the advocate’s case? But I do not believe that contention penetrates to the heart of the matter, for it is similarly true that failing to legalize contract killing

doubtlessly will result in efforts to realize those potential “gains from trade” despite their illegality, many of which will be undesirable, such as bribing law enforcement officials to ignore black market transactions taking place in this “industry,” the blackmailing of “consumers” who have purchased this service, and so on. No, as I see it, it is not a question of how much dovetail coordination is foregone that is most persuasive in these cases, but one of whether or not the overall outcome contains more or less injustice – in K-B’s terms, one of the effects that forbidding or permitting the contested activity will have on the degree of concatenate coordination in the relevant society. No one, to my knowledge, attempts to tally up the net amount of dovetail coordination foregone by outlawing murder-for-hire businesses as an important factor arguing for legalizing the industry.

Before I quit this topic, I wish to note that the above analysis does not imply that there is *never* a place in political debate for economic critiques that examine the likely consequences of a particular policy in terms of dovetail coordination: If, for instance, an advocate of a policy such as rent control asserts that it is merely promoting an economically more efficient arrangement within the current system of property rights, the economist can show that she is incorrect.

The essence of human political life, Aristotle proposed long ago, does not consist in wrangling over which persons or groups will have their personal preferences met by political action, although, too often, that is what it has come down to in our day and age. Instead, that essence is citizens’ mutual commitment to engage in reasoned debate concerning how to bring the conduct of their polity more in line with the ideal of justice. If he was right, as my arguments above rely upon in their analysis, then, even though Kirzner is correct in noting that Klein and Briggeman misinterpret his work in several important respects, nevertheless, the latter pair make an important contribution to our appreciation of the limits of economic analysis.

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