

Kirznerian Entrepreneurship as a Misesian Solution to a Hayekian Problem

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Abstract

This comment on papers by Klein and Briggeman (2010) and Kirzner (2010) argues that Kirzner's work on entrepreneurship and coordination is best understood as offering a "solution" to the problem of how knowledge is spread through markets as posed in Hayek's "Economics and Knowledge" essay (1937). It is the entrepreneur who facilitates this microeconomic coordination by bridging those knowledge gaps. This concept of coordination is distinct from Klein and Briggeman's "concatenate coordination," as Kirzner notes. The paper tries to clarify these issues and suggests that Klein and Briggeman are really talking about "order," not "coordination."

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I. Introduction

The exchange between Klein and Briggeman (2010) and Kirzner (2010) involves some of the most abstract and complex questions we face in trying to understand what it is that market economies do and how exactly they do it. They are also questions of great importance for our ability to defend the classical liberal argument for the beneficence of markets, as the back-and-forth over those issues in the exchange bear out. And, as Kirzner notes, the very nature of economics as a distinct science is also at stake given the argument that Klein and Briggeman (henceforth, following Kirzner, K-B) make.

Even as I understand the concerns that K-B have about the "100%" categorical claims they believe Kirzner to be making, concerns that I share in many ways, I do think that they are unfair to Kirzner along several dimensions. As Kirzner himself notes, they have misread his view of what precisely constitutes coordination *in a strictly economic context*. Kirzner's focus is more narrow than that of K-

B, and the result, from my perspective, is that K-B end up arguing for a position that contrasts itself with one that Kirzner does not himself hold. What K-B call “concatenate coordination” is a different animal from the “coordination” that is at the center of Kirzner’s work. Despite their attempts at using the adjective to distinguish them, I want to suggest that a better word for what K-B are talking about is “order.” In fact, Austrians covered this “coordination vs. order” ground many years back, and reviewing the issues raised there may help us to understand the core of the debate at hand.

II. Kirzner’s Entrepreneur as the Misesian Solution to a Hayekian Problem

One element of K-B’s argument is to try to “dehomogenize” Mises and Hayek, though around issues different from those raised by Salerno (1993) and others. K-B are troubled by what they see as Mises’s categorical claims about markets and his a prioristic methodology and its “apodictic certainty.” They argue that Kirzner’s work is in this Misesian tradition, and one way of reading their paper is that it is a plea to Kirzner to become more “Hayekian” so that all the good things in Kirzner’s work would be more persuasive to more people. Kirzner responds, rightly in my view, that this is a fundamental misunderstanding of his work in that Kirzner has never been committed to Mises’s epistemology and that Kirzner has had a much more Hayekian vision of economics and the economy than K-B give him credit for. Saying that an author has a better understanding of his own work than do his critics seems a rather obvious point, but it is worth making anyway: I think Kirzner is correct here.

Perhaps one way to see the point is to offer yet another way of summarizing Kirzner’s work on competition and entrepreneurship. What the entrepreneur does, for Kirzner, is to provide a Misesian solution to a Hayekian problem. The Hayekian problem is the one Hayek raises in “Economics and Knowledge” (1937, pp.50-51). There Hayek says:

The problem we pretend to solve is how the spontaneous interaction of a number of people, each possessing only bits of knowledge, brings about a state of affairs in which prices correspond to costs, etc., and which could be brought about by deliberate direction only by somebody who possessed the

combined knowledge of all of those individuals. And experience shows us that something of this sort does happen, since the empirical observation that prices do tend to correspond to costs was the beginning of our science.

Hayek goes on to say that traditional equilibrium theory assumes away the problem by assuming that everyone knows everything. He also rejects the idea that there could be “somebody” who sits god-like over the economy, directing the process. It is that metaphor that K-B want to invoke for the Hayekian understanding of concatenate coordination.

However, I think they overlook the central point of this passage, and of that whole essay, frankly. It is true that Hayek talks about the overall picture of the economic system, but here he is focused on the process by which prices correspond to costs, which is a very “micro” level consideration. The puzzle he poses is how that ever comes to be, the answer to which will require focusing on the individual actions of millions of people in millions of markets. Yes, the overall pattern, what K-B term “concatenate coordination,” is the context for Hayek, but the *economic problem is the coordination among producers and consumers that drive prices to costs*. What Hayek argues needs further explanation is how the learning necessary to bring about that equilibrium, defined as the circumstance in which all plans are capable of being fulfilled because everyone knows enough about everyone else and the state of the world to enable them to do so, ever comes about. How, in the real world of the market, does the knowledge necessary for prices to be driven to costs get communicated and spread to those who need it? That, for Hayek, is the problem of *economic coordination*.

Kirzner’s work offers a solution to that problem in the form of the Misesian entrepreneur. If knowledge is imperfect and individuals are stuck simply optimizing based on that knowledge, then no learning can take place and coordination can never be achieved. What can unstick us from this situation? The Misesian entrepreneur can, by seeing what has been previously overlooked and shifting the “given” means-ends framework, creating the knowledge necessary for people to make decisions that better align with the facts of the world and the expectations of other actors. Entrepreneurship, for Kirzner, is what “brings about the state of affairs” that expectations and actions are coordinated and that prices tend toward costs. Kirzner makes no

grander claim for entrepreneurship than that. The entrepreneur does not induce the “smile” of aesthetic joy on the face of our god-like coordinator, nor does the entrepreneur assure with certainty a world that classical liberals would think is desirable. The entrepreneur simply spreads knowledge that leads people to make choices that they themselves would view as better, hence the “dovetail coordination” that Kirzner discusses.

K-B criticize Kirzner for overlooking questions that were never within the realm in which he was operating. The debate over *The Communist Manifesto* is a good example. Kirzner, qua economist, is only interested in the question of whether the production of that book allocated resources in a way such that the price obtained for the book better reflected the value of those resources to the buyers. Speaking as an economist, the overwhelming market success of the book strongly indicates that it did, thus producing it enhanced economic coordination. K-B are free to argue that from some broader social or political-economic perspective, perhaps that of our god-like smiler, the world would have been a better place had the book never been produced. That may well be true, but it is simply irrelevant to what Kirzner means by coordination and the coordinating role of the entrepreneur. As Kirzner points out in his reply, K-B seem to be castigating him for even drawing such lines in the first place. Kirzner, rightly, does not deny that economics plays an important role in service of the classical liberal vision, but he (2010, p.79) does maintain the “simple truth taught to beginning students of economics” that not everything that markets do efficiently is something that produces widespread social benefits.

III. Coordination vs. Order

It strikes me that this debate echoes an earlier distinction in the Austrian literature. In the mid-1980s there was much talk of junking the equilibrium concept from Austrian economics and replacing it with the concept of “order.” The thinking at the time was that equilibrium was simply too narrow and too unrealistic to capture the “good thing” that markets did. Austrians argued that markets were everywhere plagued by disequilibria, by the technical definition, yet they nonetheless continued to generate all kinds of beneficial consequences. The notion of equilibrium seemed singularly unsuited to describe the real world benefits of markets.

Instead, the idea was that markets produced a broader and weaker concept of “order.” Order, it was argued, could capture the creativity and complexity that seemed absent from equilibrium but could retain its concern with coordination. Hence, order was seen to be an intertwining of creativity, complexity, and coordination (Boettke, Horwitz, and Prychitko, 1986; High, 1986). Arguably the order concept has remained somewhat nebulous, but there was still some truth in what it was getting at. Perhaps that notion of order is more akin to what K-B are talking about with the term “concatenate coordination,” especially by contrast to Kirzner’s more narrowly economic use of “coordination.” It is true, as K-B demonstrate textually, that economists have long used the word coordination in the sense of concatenate coordination, but it is also true that the more narrow Kirznerian use has its own history and partisans. I would suggest, at the very least, that the idea of “order” perhaps more nicely corresponds to the aesthetic component that K-B wish to attribute to concatenate coordination. We generally tend to think of orderly things as possessing a certain aesthetic value, more so than we generally associate with the word “coordination.” If Kirzner is right, and I believe he is, that Hayek’s notion of “dovetail coordination” is very different from K-B’s concatenate coordination, then there is even a stronger argument for leaving the word “coordination” to Kirzner’s meaning, derived as it is from Hayek, and using “order” for what K-B are concerned with.

Doing so has the additional advantage of linking up with that element of Hayek’s work that *does* point toward the more god’s-eye view of the marketplace, namely his development of the concept of “spontaneous order,” particularly as applied to societies as a whole and the evolution of institutions. In the end, I think this is what K-B are after. I completely agree that the Hayekian concept of spontaneous order is best understood in rhetorical, metaphorical, and aesthetic ways. It has proven notoriously hard to rigorously define, but we do tend to know it when we see it. And some of the most powerful elucidations of the concept are those that capture it in literary or metaphorical form, such as Leonard Read’s (1958) masterful “I, Pencil.” An appreciation of the spontaneous order of the social world does require a certain aesthetic sense that develops

from recognizing the existence of such orders and their beneficence.¹ Stepping away from the complex adjectival versions of coordination and talking of spontaneous order would not only clarify much confusion, it would also capture what I think the older economists were really talking about when they used the concatenate version of coordination.

IV. Conclusion

In the end, I am not sure that this exchange generated sufficient light to be worth the expenditure of heat by the authors. If one clear point comes out of it for me, it is that Kirzner is correct in trying to distinguish his narrowly economic explanation of coordination from K-B's broader, more political-economic, more rhetorical use of the term. What K-B do not seem to sufficiently recognize is the way Kirzner's concept of coordination is tied up with a vision of entrepreneurship that was intended to address a very specific "problem" in economic theory: the learning process by which prices tend to go to costs, as identified by Hayek. Kirzner's Misesian solution to a Hayekian problem constitutes his enduring contribution to economics, and not just Austrian economics. It was never intended to be anything more than it was, and that point is unfortunately lost in K-B's attempt to defend a broader view of coordination. I have a great deal of sympathy for what K-B are trying to do, but I think they have significantly misread Kirzner in their perhaps well-intentioned attempt to persuade him over to their side.

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¹ In Horwitz (2005), I argued for the aesthetic appreciation of social spontaneous orders as being analogous to the beauty we find in the spontaneous orders we find in nature. I titled that little essay "Of Social Snowflakes." I also argued that it is a very difficult, yet important, task to get people to see such social spontaneous orders this way, which is why I share K-B's concern with the rhetoric of economists, even though I think they have misread Kirzner in a way that makes their criticisms of his rhetoric misplaced.

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