



**DEPARTMENT OF
ECONOMICS**

Entrepreneurship, and the Entrepreneurial Market
Process: Israel M. Kirzner and the Two Levels of Analysis
in Spontaneous Order Studies

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Working Paper No. 13-19

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“In any real and living economy every actor is always an entrepreneur ...”

-- Ludwig von Mises (1966, 252)

“Mises’s *homo agens* ... is endowed not only with the propensity to pursue goals efficiently, once ends and means are clearly identified, but also with the drive and alertness needed to identify which ends to strive for and which means are available. ... Human action treats both tasks – that of identifying the relevant ends-means framework and that of seeking efficiency with respect to it – as a single, integrated human activity.”

-- Israel Kirzner (1973, 34)

“ ... the term ‘limits of the market’ do not refer at all to any kind of market failure. Instead, the notion refers to the institutional pre-requisites for the very existence of the market. ... We wish to emphasize the insight that, for its very emergence and existence, the market must rely on the presence of extramarket institutions, without which the idea of a market process must be a mere dream.”

-- Israel Kirzner (2000, 77)

1.0 Introduction

“Economics,” Ludwig von Mises (1966, 252) famously wrote that, “in speaking of entrepreneurs, has in view not men, but a definite function.” The entrepreneurial function is to be the driving force of the market economy. The entrepreneur acts on the basis of changing circumstances in market conditions to produce the accommodating adjustments in exchange and production. The ceaseless quest for

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profits by those eager entrepreneurs drive the market system toward realizing the gains from trade and the gains from innovation. The relentless pursuit of profit is in this Misesian analysis of the market process the critical factor in how markets work. Profits and losses are ever-present features of a functioning market economy only because of changing circumstances that result in discrepancies that require adjustments.

Israel Kirzner was exposed to this Misesian vision of the market process as a graduate student and the articulation, elaboration, and refinement of this Misesian vision became his central professional task. It is for his outstanding contributions to economic science that emerged in this scholarly quest that we justly celebrate Kirzner today. He more than any of Mises's other students in Austria, Switzerland, and the US, pursued persistently and consistently the implications for the analysis of the price system and the market economy of the Misesian theory of the entrepreneur.

Central to our understanding of the operation of the market economy is the concept of *spontaneous order*. The idea that individuals striving to achieve their own purposes and plans can through the guiding signals and incentives of the price system result in a socially desirable allocation and distribution of resources was the great scientific discovery of the 18th century Scottish moral philosophers. As Kirzner has stated it:

To a considerable extent, the relevant lessons from economics revolve around the concept of spontaneous order. Whereas the untutored view of society is likely to assume that absence of central control must inevitably generate hopeless discoordination and frustration—economics shows how the opposite of this view is in fact the truth. Economics shows how, from the independent decisions of many

market participants, there emerges a systematic process of learning and coordination. The outcome of this process is the spontaneous order of the market economy. It is upon this spontaneous order that the unprecedented prosperity of market economies rests. (1987, 45)

But critical to Kirzner's research in economics is that this coordination of economic activities takes place against a backdrop of a fixed and given framework. In short, in his *praxeological* analysis of spontaneous order, Kirzner insisted that we strictly adhere to two-levels of analysis that are analogous to the pre- and post-constitutional levels of analysis that James Buchanan (e.g., 1987) insisted political economists adhere to when discussing the 'constitution of economic policy'. The first level of analysis in Kirzner's approach is one where the framework is fixed and given and not subject to economic analysis.¹ The moral codes of behavior, the ethical rules we follow, and the legal institutions that define and enforce private property and ensure the freedom of contract are *assumed* to be in place, and then the economist examines the processes of exchange and production that emerge within the market economy that exhibit the strong tendency to realize all the gains from trade and all the gains from technological innovation. The theoretical derivation of the efficiency of the market economy emerges from analysis of economic processes within a specified institutional framework. Absent that framework, Kirzner insists, the efficiency properties are neither well understood nor guaranteed. Thus, the second level of analysis is over the framework itself, and

¹ What all constitutes the framework is of course a critical question and not as easily answered as one may think given the 'nested' nature of institutions and policy choices. For example, it seems non-controversial to say "legal institutions" are part of the framework, but would the "monetary system" be part of the framework or subject to economic analysis as in the evolution of indirect exchange out of system of barter. But as I will explain, in Kirzner's analysis he is explicit that he does not deny long run social evolution, his criticism of some variants of spontaneous order study are limited to the efficiency claims made on behalf of those long run social evolutionary processes.

Kirzner doubts that existing economic tools of reasoning can provide a useful analytical guide in that task.

In this paper, section 2.0 will first provide a restatement of the Mises-Kirzner position with respect to the universal nature of the entrepreneurial element in human action. Section 3.0 will elaborate on Kirzner's presentation of the entrepreneurial market process against the background of a framework of private property rights and freedom of contract protected by the rule of law. Section 4.0 will discuss the Kirzner challenge to spontaneous order studies. And, section 5.0 will conclude.

2.0 The Omnipresence of Entrepreneurial Action

As Kirzner explains in *The Economic Point of View* (1960), the evolution of economic thinking proceeded from a preoccupation with wealth, to exchange relations, to economizing, to the universal nature of purposive human action. There is no separate economic realm of human action, there is just purposive human action. Philip Wicksteed in his *The Common Sense of Political Economy* (1910, 3) explained this position as follows: "We must regard industrial and commercial life, not as a separate and detached region of activity, but as an organic part of our whole personal and social life; and we shall find the clue to the conduct of men in their commercial relations not in the first instance amongst those characteristics wherein our pursuit of industrial objects differs from our pursuit of pleasure or of learning, or our efforts for some political and social ideal, but rather amongst those underlying principles of conduct and selection wherein they all resemble each

other; for only so can we find the organic place of industry in our conception of life as a whole.”

The underlying principles of conduct and selection that Wicksteed refers to are the purposive pursuit by individuals to accomplish their goals whatever they may be. The psychological fiction of “economic man” need not be invoked. All of man’s pursuits from the most base to the most profane are guided in this sense by the underlying principles of conduct and selection. Economic analysis is not limited to the study of man guided only by limited motivations of monetary gains. Instead, as Wicksteed (1910, 4) states, “We are not to begin by imaging man to be actuated by only a few simple motives, but we are to take him as find him, and are to examine the nature of those relations into which he enters, under the stress of all his complicated impulses and desires – whether selfish or unselfish, material or spiritual – in order to accomplish indirectly through the actions of others what he cannot accomplish directly through his own.”

The universal applicability of economic reasoning to the study of man in all walks of life would be further articulated by Ludwig von Mises. The logic of means-ends analysis in human decision making found application not only in the cold calculations of the marketplace based on profit and loss, but in all our endeavors. We weigh the costs and benefits of our decisions on the margin, and choose accordingly, at least in an *ex ante* sense. As Kirzner (1960, 155) put it, “At the root of the notion of human action is the simple assumption that human reason plays a role in every action.”

The concept of *economizing behavior* while an important aspect of rationality in action, does not capture the totality of rational choice from the perspective of Misesian praxeology. “Acting, in the praxeological sense, consists in selecting a pattern of behavior designed to further the actor’s purposes.” (Kirzner 1960, 165) In other words, we strive not only to pursue our ends with a judicious selection of the means, but also to discover what ends that we hope to pursue. “The key point,” Kirzner (1960, 166) writes, “is not that acting man ponders the comparative efficacy in different uses of certain given ‘means’, but that he behaves under a constraint that he himself has imposed, i.e., the necessity of acting in order to achieve what he wants to achieve, so that his behavior tends to conform to the pattern implied by his scale of ends. ‘Means’ exist as such for acting man only *after* he has turned them to his purpose; acting is not apportioning, but *doing* – doing what seems likely to further one’s purpose.”

The human propensity to be alert to that which is in our interest to be alert to is thus omnipresent in all walks of life. Rationality in action consists of the consistent pursuit of one’s purposes; the discovery of what ends to pursue to satisfy those goals, and the judicious selection of means to achieve those goals. It is important to stress, however, that rationality from this Misesian perspective does not imply that mistakes in one’s pursuits can never be made, nor that evidence of such mistakes constitutes instances of irrationality in human decision making. As Mises colorfully put it: “To make mistakes in pursuing one’s ends is a widespread human weakness. Some err less often than others, but no mortal man is omniscient and infallible. Error, inefficiency, and failure must not be confused with

irrationality. He who shoots wants, as a rule, to hit the mark. If he misses it, he is not 'irrational'; he is a poor marksman. The doctor who chooses the wrong method to treat a patient is not irrational; he may be an incompetent physician. The farmer who in earlier ages tried to increase his crop by resorting to magic rites acted no less rationally than the modern farmer who applies more fertilizer. He did what according to his – erroneous – opinion was appropriate to his purpose.” (1957, 268).

It should be clear that to Mises, rational human actors are human enough to sometimes err. But those errors do not constitute instances of irrationality. Man is always rational in his pursuits. Purposive human action is synonymous with rationality. *But critical to the Kirzner argument about the limits of spontaneous order theorizing, the manifestations of rationality are institutionally contingent.*

Before proceeding to that argument, let me reiterate that in the Mises-Kirzner analysis man actively pursues his purposes and plans. He not only strives to arrange the means available to him in the most efficacious way to achieve his ends, but he is always alert to what ends might better satisfying his goal of bettering his condition. Individuals in this sense act *entrepreneurially* to pursue their purposes in life. Misesian human actors are constantly alert to the possibility of newly worthwhile goals and to the existence of newly available resources. It is this recognition of the entrepreneurial element in all of human action, Kirzner (1973, 35) states, “that is responsible for our understanding of human action as active, creative and human rather than as passive, automatic, and mechanical.”

3.0 The Nature of the Entrepreneurial Market Process

“Price theory ... ,” Kirzner (1973, 32) observes, “operates by referring all market phenomena back to individual decisions.” This is the basis of microeconomics. Kirzner is in full agreement with this analytical perspective. Moreover, his examination of price theory is grounded in the relative price economic analysis that is the hallmark of modern neoclassical economics. It is important to stress that the Austrian economics of Mises-Kirzner is grounded in the contributions of the early neoclassical revolution in economic thinking, and must be viewed as an extension of that tradition rather than a substitute. The Austrian theory of the market process is as grounded in the analysis of relative prices on economic conduct and coordination as any of the other variants of neoclassical economics, though with a stronger emphasis on the entrepreneurial element in human action, and thus the entrepreneurial function within the competitive market process. As Kirzner explains in *Market Theory and the Price System* (1963, 113): “We have been assuming [in the presentation of consumer behavior] that the facts governing the relevant decision were presented in some definite but unexplained way by the external world, as market data. Just as an individual is forced to adjust himself passively to the physical laws governing his surroundings, so we also assumed him to face the prices of the goods that he wished to buy as being determined completely by impersonal and external forces. But the market process is itself continually modifying, disrupting, and adjusting the market phenomena that govern the decisions of the market participants. Our task is to understand *this* process.”

How neoclassical this project of understanding is, has been the subject of a vigorous debate since the 1950s. But to get a sense of how deep the roots are in neoclassical price theory of an understanding of relative price adjustments, consider the following description of the task of ‘traditional price theory’ provided in Henry Simons’ *Syllabus* that schooled at least a generation or two of Chicago economists mid-20th century in the economic way of thinking. “Traditional price theory consists primarily in analysis of the pricing process under a *free-enterprise economy* --- under a *system characterized by private property, free contract, and free exchange*. Assuming given underlying conditions (given conditions, broadly, as to tastes, technology, resources, and ownership), it attempts to show how consumption and production are controlled through the pricing process and, above all, to describe (a) the arrangements under which the system will be in equilibrium and (b) how departure from the equilibrium arrangements will set in motion forces operating to restore equilibrium. *The central conception of price theory is that of an equilibrium adjustment with respect to relative prices and relative production.* (1983, 6)²

A few things to stress about the message of Simons’ *Syllabus* for the purposes of this essay – the underlying conditions are neither focused on behavioral conditions such as perfect knowledge, nor market structure conditions such as infinite number of buyers and sellers. Instead, the focus is on the background framework of a free economy, and the focus is on the role that relative price

² We are primarily limited in our discussion to the positive analysis of the market process and spontaneous order studies rather than the normative implications for political economy, but it is important to stress that the positive understanding of market forces does put parameters on utopian aspirations. As Simons (1983, 3) put it: “Academic economics is primarily useful, both to the student and to the political leader, as a prophylactic against popular fallacies.” To see Kirzner’s nuanced discussion of the relationship between positive economic analysis of the market economy and policy advice see his essays “The Anatomy of Economic Advice”. (2006a, 2006b, 2006c)

adjustments play in coordinating economic activity by impinging on the actions of individuals within the process. This, of course, in my reading is the same project as Kirzner's in explicating the nature of the competitive market *process*.

Individuals will continually pursue trades until the mutual gains are exhausted. Market agitation reflects the changes being made by market participants in their attempt to bring their plans into consistency with the plans of others as embodied in the data of the market. Obviously Mises and Hayek make this point explicitly in their work, and a great number of economists makes this point about market agitation implicitly in the stories they construct to help students understand the economic logic of competitive markets. But to my mind, one of the best communicators in the second half of the 20th century of this logic of the market process is Israel Kirzner.

In *Market Theory and the Price System*, Kirzner states: "If a market is not in equilibrium, we have seen, this must be the result of ignorance by market participants of relevant market information. The market process, as always, performs its functions by impressing upon those making decisions those essential items of knowledge that are sufficient to guide them to make decisions *as if* they possessed the complete knowledge of the underlying facts." (1963, 240) Mutual plan consistency between market participants is a defining characteristic of equilibrium. When such mutual consistency of plans is achieved, the resulting pattern of market exchange and production decisions can be maintained indefinitely without need for alteration. On the other hand, inconsistency "between any sets of decisions will be revealed through disappointments and will be followed by

revisions in future decision making. Inconsistencies will thus generate ripples of change affecting wide areas of decision making.” (Kirzner 1963, 256) The task of an economic theory of the market is to explain how market forces set in motion by existing plan inconsistencies will impact future decisions in such a way to bring about mutual consistency of plans among market participants. How, in other words, the most willing demands and the most willing sellers are led to act in concert with one another to realize the gains from social cooperation under the division of labor.

In Kirzner’s original presentation of the market process, it is the absence of perfect knowledge on the part of individuals within the market that results in an initial pattern of behavior that fails to achieve mutual consistency. The “discovery of this absence of consistency will take the form of disappointments suffered by the participants who have formulated plans of market action on the basis of assumptions concerning market conditions that prove to have been mistaken.” (1963, 262) This lack of dovetailing in market decisions means that the existing prices are not perfectly adjusted – resources are being used in production processes that they shouldn’t, and existing consumer tastes are not being fully taken into account in decisions. There are, in short, maladjustments within the market as tastes and resource availability are not fully reflected in the price system. “These maladjustments will necessarily make themselves felt sooner or later. In this way, knowledge of these maladjustments will spread and will enforce changes in the plans of market participants.” (Kirzner 1963, 270-271) One very obvious way the situation impinges on economic decision makers is that disequilibrium creates profit opportunities for entrepreneurs who recognize the maladjustment and act to

erase them. Buying low and selling high, reallocates resources in the direction that brings about a greater consistency in plans among market participants. Entrepreneurship is spurred on by disappointment in plans, but works in action to erase that disappointment among market participants. As Kirzner put it a subsequent presentation of his approach: “The market process emerges as the necessary implication of the circumstances that people act, and that in their actions they err, discover their errors, and tend to revise their actions in a direction likely to be less erroneous than before.” (1979, 30)

Later in his theoretical restatements of his position, Kirzner would make the important distinction between the underlying variables of the market (tastes, technology and resource availability), and the induced variables of the market (prices and profit/loss accounting), and he explained how the market process can be described as the continuous activity that results from individuals on both sides of the market trying to satisfying their plans for betterment. (see Kirzner 1992) When the production plans of some dovetail with the consumptions plans of others, the induced and underlying variables are consistent with one another. If no mutual consistency exists, then economic activity continues because it will be in the interest of the parties to continue to seek a better situation than they are currently realizing.

Relative prices guide us in decision making, profits lure us in our decisions, and losses discipline us in our decisions. This is how the price system impresses upon us the essential items of knowledge required for plan coordination in Kirzner’s rendering of the entrepreneurial market process. In understanding how market forces work to bring about the efficiency economists attribute to the competitive

market economy, Kirzner insists that besides identifying the optimality conditions of equilibrium, we must pay attention to the second task Simons told his students price theory must do – the equilibrating adjustments set in motion by the existence of disequilibrium. “The central meaning,” Kirzner writes, “of the movements which we continually observe in markets is that discoveries are being made concerning overlooked market gaps. Each such overlooked opportunity constitutes at the same time (a) a disequilibrium feature in the market, and (b) an exploitable opportunity for pure profit. It is the incentive offered in the form of pure profit that inspires and motivates those entrepreneurial discoveries that tend to correct earlier features of disequilibrium.” (1992, 49)

The science of economics is born out of the puzzle that the coordination problem presents to our imaginations. The solution to the puzzle is the entrepreneurial market process. And the resulting order of the market system is the miracle that should inspire our intellectual awe and amazement and attract subsequent generations of students and scholars to want to better understand how market forces work in theory and practice. Focusing our intellectual attentions on the conditions associated with the state of rest (when plan consistency is achieved) more often than not impedes understanding by trivializing the miracle we witness daily. While the characteristics of a competitive market equilibrium are essential to our economic understanding, we must nevertheless focus attention on how that equilibrium is brought about through the continual adjustment of relative prices that accommodate changes in tastes, technology and resource availability and guide individual decision makers in their necessary adaptations to shifting market

conditions. This is how markets work to ensure that individuals realize the mutual gains from trade and the mutual gains from innovation, and realize the full benefits of social cooperation under the division of labor.

The lure of pure profit, the guidance of relative prices, and the discipline of loss are the critical “mechanisms” that translate entrepreneurial action – which remember is omnipresent in all human action – into a critical ingredient to the competitive market process. The critical question to Kirzner’s analysis then becomes the institutional framework that enables free price adjustments, profit seeking, and the reallocation of resources from some decision makers to others due to loss. As Simons put it in the passage cited above, the framework required is a private property market economy with freedom of contract protected by the rule of law. Within such an institutional framework, the process of mutual adjustment follows from the “spontaneous translation of as yet unexploited exchange opportunities into opportunities for pure profit able to attract the attention of the most alert entrepreneurs.” (Kirzner 1979, 151)

4.0 A Plea for Mechanism Within Spontaneous Order Studies

Any entrepreneurial act is little more than a wishful conjecture about how things could and should be different than they currently are. This is true whether we are talking about commercial and industrial life, or in our dating behavior, or in our prayer activity, or in our expression of political opinion on pressing matters of policy. Within the context of the private property market economy, however, those wishful conjectures are played out against the backdrop of an array of prices that

guide decisions, and profit and loss accounting that reward or penalize the decisions related to those conjectures. In short, we have a system of property, prices and profit/loss that incentivizes and provides the necessary information/knowledge as we have seen in the last section to bring about the coordination of economic activities. In fact, the history of economic theory from Adam Smith to Vernon Smith is one that has pursued this logic of market activity within a regime of enforceable and exchangeable property rights and demonstrated the marvelous efficiency of the price system. In Kirzner's language, market agitation will continue until the induced variables of the market perfectly reflect the underlying variables of the market and mutual plan consistency among market participants is achieved. Such a state of the dovetailing of plans among individuals within the market will result in a pattern that exhibits exchange efficiency, production efficiency, and product-mix efficiency. In other words, no mutually gains from trade go unrealized, no lower cost technology can be utilized, and no effective consumer demands go unmet.

Economic theorists are correct to be proud of the intellectual achievement revealed in the demonstration of this beautiful system, and to embrace their intellectual heritage as the quintessential "invisible hand" theorists.³ Kirzner shares this enthusiasm with his fellow economists. But he raises a caution to those who indiscriminately want to stretch spontaneous order explanations from the market within a given institutional framework to the explanation of that evolution of that framework itself. One practical question which Kirzner raises is one of timing --- the efficiency properties of the market emerge quickly as the signals of prices and the

³ In *Living Economics*, I argue that the embracing of this intellectual heritage is the defining characteristic of "mainline" economics. (see Boettke 2012, xv-xx; 383-388)

incentives of pure profit impinge on human actors in short order, social evolution of the framework of moral rules and legal codes tends to emerge over decades and perhaps centuries. But while this is an important practical issue, it is not the issue that I believe is central to Kirzner's hesitation in pushing spontaneous order theorizing from its established domain within a set of given institutions, but over that institutional framework itself. Not only doesn't the convergence to an "efficient" arrangement occur quickly, we have no reason to believe it will ever converge as we might hope.

To illustrate his point, Kirzner (1987, 48) uses the example of the evolution of language.

The term "spontaneous order" is almost invariably taken to connote an outcome that is socially benign. There is indeed a sense in which this is likely to be true, but this sense is a quite limited one. No doubt it is in general desirable that individuals be able to arrive at confidently accurate anticipations concerning the actions and reactions of others. This avoids much disappointment and frustration on all sides. So that it is indeed useful that the language my children learn at home overlaps with the language learned by other children in their homes. This permits social intercourse and facilitates education. But there is hardly --in the insight that such institutions emerge spontaneously-- any implication that the emerging institutions are the best conceivable such institutions. There is no guarantee that the English language my children learn at their mother's knee will be a "better" language for purposes of social intercourse than, say, French- or Esperanto. The demonstration that widely accepted social conventions can emerge without central authoritarian imposition does not necessarily point to any optimality in the resulting conventions.

Kirzner is making the very sensible point that in social evolution, without recourse to the mechanisms provided by property rights, freely adjusting prices, and the lure of profit and the discipline of loss, all we can say is that practices that evolve serve as focal points of action. There is no analogous mechanism that aligns the induced

variables of a social convention with the underlying variables of social reality, as we saw in Kirzner's presentation of the market system. What would be the equivalent in social realms outside the context of the market economy of the tendency for price to equal marginal cost, and production to be at that level that minimizes average cost?

The market economy operates with its ruthless efficiency to coordinate economic activities through time and realize the gains from social cooperation under the division of labor *because* of the institutional framework that is a pre-requisite for the very existence of the market economy. As Kirzner says, economic theory demonstrates that there does exist a spontaneous tendency for social optimality when the relevant institutional conditions are met --- namely, well defined and enforceable private property rights, freedom of contract and freedom of exchange all protected by the rule of law and embedded in a moral code of behavior that legitimizes these practices. In an essay titled "The Limits of the Market: The Real and the Imagined," Kirzner states his position forcefully: "the term 'limits of the market' do not refer at all to any kind of market failure. Instead the notion refers to the institutional pre-requisites for the very existence of the market. ... We wish to emphasize the insight that, for its very emergence and existence, the market must rely on the presence of extramarket institutions, without which the idea of a market process must be a mere dream. These genuine limits to the market, because they do not refer to market failure, cannot provide any rationale for governmental suspension of markets. But they certainly do point our thinking concerning markets towards the extramarket ethics and legal principles which may, practically speaking,

be the necessary basis for those institutions upon which the market itself must rest.”
(2000, 77-78)

Kirzner is thus suspicious of economic analysis that doesn't limit its analysis to an examination of processes within the bedrock institution of private property rights, but instead seeks to employ economic reasoning to explain the evolution and establishment of the bedrock institutions upon which the market rests. Kirzner is in extremely good intellectual company in his skepticism of the ability to stretch spontaneous order analysis beyond the realm of the market economy.

James Buchanan (1977) essentially makes the same argument. As he states, “I have often argued that there is only one principle in economics that is worth stressing, and that the economists' didactic function is one of conveying some understanding of this principle to the public at large. Apart from this principle there would be no basis for general public support for economics as a legitimate academic discipline, no place for economics as an appropriate part of a liberal educational curriculum. I refer, of course, to the principle of the spontaneous order of the market, which was the great intellectual discovery of the eighteenth century.” (1977, 25) But Adam Smith's butcher, baker and brewer interact within a framework of general rules that respect private property and ensure the freedom of trade. The workings of the market economy do, Buchanan insists, result in Pareto-efficient results. But the “forces of social evolution alone contain within their workings no guarantee that socially efficient results will emerge over time. The historically determined institutions of legal order need not be those which are 'best'.” (1977, 31) Buchanan argues that while discussions over reforming the institutional

framework should be informed by an understanding of the principle of spontaneous order, the discussions should not be inhibited to such an extent that efforts to reform the framework through rational deliberation are rejected.

Buchanan famously argued that there are two levels of analysis in political economy – the pre-constitutional level of analysis and the post-constitutional level of analysis. The pre-constitutional level of analysis is focused on the choice over the rules of the game and the organizational arrangement that will enforce those rules. The post-constitutional level of analysis is focused on the choices made *within* a given set of rules. Kirzner's work, I am arguing, follows a similar demarcation strategy for spontaneous order studies --- and his confidence of the applicability of economic theory to explicate the principle of spontaneous order in a benign manner is high within the specified institutional framework of private property and freedom of contract, and low when spontaneous order explanations are stretch to an examination of the evolutions of property rules and the codes of ethical conduct.

To put this another way, while the entrepreneurial element of human action is ever present, the entrepreneurial market process and the efficiency properties it exhibits are institutionally contingent. Against the appropriate institutional backdrop, entrepreneurial action will tend to realize the gains from trade and the gains from innovation. Absent that framework, however, and entrepreneurial action can run in a variety of directions, and without any guarantee of social desirability.

Kirzner and Buchanan raised a serious challenge to economists and political economists. Their challenge is actually straightforward and rather intuitive once one thinks about the mechanisms that make markets work. We have confidence as

economists in invisible hand explanations of the market economy, because we can easily examine once we understand the basic logic of economic reasoning how one can move from the rational choices of individuals and voluntary exchange to the mutual consistency of plans within the market order via an explanation of the functional significance of property, prices and profit/loss. Rational human choice results in the invisible hand of the market because of the institutional pre-requisites of private property, free pricing, and profit and loss accounting guide decisions, reveal opportunities for mutually beneficial exchange, coax innovative developments, and discipline mistakes.

However, I have argued repeatedly throughout my own career – which has been defined by the post-communist transitions and the failure of development planning⁴ -- that one of the really significant practical challenges in political economy is contemplating whether the ‘transition to the market is too important to be left to the market?’⁵ I don’t want to emphasize the normative element of this, but the positive political economy of this dilemma. When discussing transition economies, and failed and weak states, as Raghuram Rajan (2004), it is a mistake in economic analysis to treat the institutional framework as given, when in fact it is the absence of that institutional framework as to why the situation we face is what it is. Of course, neither Kirzner nor Buchanan would deny that, but the question is how to proceed in your positive political economy of the situation. Ironically, two of the

⁴ See Boettke (1990; 1993; 2001).

⁵ Peter Leeson and I published a paper under that title (see Boettke and Leeson 2003) and we also examine similar issues in our work on two-tiered entrepreneurship (Leeson and Boettke 2009), also see my overview papers on the topic (see Boettke 2011).

most acute economic theorists of their respective generations suggest that the answer lies elsewhere than economic analysis strictly understood.

While fully conceding their plea for the study of mechanism in spontaneous order study, I have to respectfully disagree with my two guiding mentors in economic research.⁶ I don't think the exclusive move to social contract theory and veils of uncertainty at the rules stage solves the difficulties that Buchanan identifies, and neither do I believe deferring to non-economic arguments for the moral codes of conduct and legal principles that governing a society of free people as Kirzner does will prove sufficient. However sympathetic I am to the efforts of Buchanan and Kirzner, I think the more fruitful research approach is to take their challenge seriously and seek to identify the mechanisms in operation in processes of social evolution that serve the analogous functional role that property, prices and profit/loss do within the market economy.

Peter Leeson (2010) distinguishes between what he terms "easy cases", "harder cases", and "hardest cases" in spontaneous order studies. The "easy cases" basically refer to those instances where the underlying moral and institutional framework are treated as given (and provided by a well-functioning state). As we have seen in the discussion of Kirzner's theory of the market process, when property rights are clearly defined and enforced, the voluntary choices of individuals with regard to exchange and production is all that is required for the system to exhibit a strong tendency to optimality. As long as individuals are 'free to

⁶ For an appreciation of the central insights of Buchanan and Kirzner to the intellectual tradition of "mainline" economics see my discussion of their work in *Living Economics* (Boettke 2012, 42-65; 213-225; 241-261).

choose', provided that framework is in place, and an efficient social order will emerge. Contracting in the 'shadow of the state' works to discipline opportunism and punish cheaters, and the incentives and information/knowledge provided by the ordinary operations of the market economy are sufficient to realize the gains from social cooperation under the division of labor.

But Leeson points out, and I am in agreement with him here, that as much as we can appreciate the brilliant arguments laid out from Adam Smith to Israel Kirzner concerning the invisible hand of the market, progress in contemporary political economy and spontaneous order studies requires that we tackle the "hard" and even "hardest" cases. It is in the study how situations of social conflict can be transformed into opportunities for social cooperation, and what system of rules and enforcement mechanisms emerge, and are in operation, that enable the achievement of this transformation that we will make progress in the study of transitioning economies and the puzzle of development.⁷

We must see the constitutions of our institutional framework as capable of being made from the "bottom up" rather than as always the consequences of "top-down" constitutional choice, precisely because in the situations of transition and development that we are studying the institutional capacity to achieve order from the "top down" is absent almost by definition. It is important to stress, that such constitution making from the bottom up, along the lines discussed by Vincent and Elinor Ostrom in their respective work, does not commit the analysis to viewing

⁷ For a praxeological analysis of the US led military effort to export democracy and the free market to failed and weak states after conflict see Coyne (2007), and on the limits of humanitarian aid in times of crisis see Coyne (2013).

constitutions as merely the product of historical accident and force, but instead as genuine products of reflection and choice. The rules that make possible self-governance and the overcoming of social dilemmas can be, but are not necessarily, limited to evolved informal social norms. Covenants without the sword of the state can take many forms – and we need to be open as economists and political economists to studying the details of the variety of design principles that enable effective self-governance.⁸

It is also vital for us to stress, as Leeson (2010, 151) does, that “It would be foolish to contend that all cases of spontaneous social order will outperform all cases of government-created social order.” Both the Buchanan and Kirzner skepticism of the perceived implication of Hayekian analysis of social evolution as necessarily ‘Panglosian’ is unwarranted. While it is unlikely that economists will come to such an erroneous position of asserting that whatever happens with regard to social evolution is the best of all possible worlds, there is, as Leeson warns, another error that is equally as dangerous for making progress in economics and political economy and that is to assert that “all cases of government are superior to all cases of spontaneous order” when it comes to the economics of governance.

Kirzner’s insistence on the two-levels of analysis in spontaneous order studies is an important distinction that economists and political economists must always keep in mind. But rather than heed his warning that we should not stray from what Leeson refers to as the “easy case”, I would argue we must be up to the intellectual challenge of tackling the “harder” and even “hardest” cases if we are to

⁸ On the Ostroms’ contributions to political economy of self-governance see Boettke (2012, 139-158; 159-171).

make scientific progress. So Kirzner's warning becomes instead Kirzner's challenge, and I interpret that challenge as identifying the underlying mechanisms in operation in a vast diversity of institutional arrangements that enable us to turn social dilemmas from situations of social conflict into opportunities for social cooperation. We must find mechanisms that are functionally equivalent to the roles played by property, prices and profit/loss within the market economy in order to come to an understanding of the self-regulating social order in realms outside of the market context.

5.0 Conclusion

That the entrepreneurial element in human action is omnipresent, but that the efficiency of the entrepreneurial market process is institutionally contingent. Establishing this clearly and forcefully, I have argued, is Israel Kirzner's enduring contribution to the spontaneous order studies. Within an institutional framework of moral and legal principles that protect private property and the freedom of contract, Kirzner has throughout his career explained how the entrepreneurial market process continually adjusts to ensure that peace, prosperity and progress are achieved. In my reading, Kirzner's singular contribution among contemporary economists is in explaining more thoroughly than others how markets work.⁹

Richard Cornuelle, the man who established the Fund for the Study of Spontaneous Order and these Lifetime Achievement Awards, was like Israel Kirzner,

⁹ See, e.g., Kirzner (1997) for an example of his subtle, yet straightforward, presentation of how the entrepreneurial market process works to bring about a peaceful and prosperous order.

a student of Ludwig von Mises. Kirzner often states how his scholarly path was formed as a graduate student by Mises's declaration that:

The market is not a place, a thing, or a collective entity. The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor. ... The market process is entirely a resultant of human actions. ... The market process is the adjustment of the individual actions of the various members of the market society to the requirements of mutual cooperation. (1966, 257-258)

In a very significant way, Kirzner devoted his career to the examination, elaboration, and refinement of this Misesian understanding of the market process.

On the other hand, Richard Cornuelle as a student of Mises was intrigued by Mises's claim that praxeology was a universal discipline of the study of human action in all walks of life. After working at the Foundation for Economic Education and studying with Mises at NYU in the late 1940s, Cornuelle worked for the Volker Fund as a program officer and played a role supporting not only the Law and Economics program at the University of Chicago, but also the Thomas Jefferson Center for Studies in Political Economy at the University of Virginia – the birthplace of public choice theory – and various seminars and workshops designed to encourage scholars to pursue a rational human actor model across the social and policy sciences. In the development of law and economics and public choice, for example, the methodological individualism of Mises and the idea that the study of rational human choice can be stretched beyond the exclusive nexus of commercial and industry is evident throughout. This was also true for property rights economics and what became known as New Institutional Economics more generally. Cornuelle, in his own work, sought to examine the 'independent sector' of

philanthropy and civil society through the lens of Misesian praxeology and Hayekian spontaneous order. (see, e.g., 1965 and 1983)

Cornuelle in establishing this award often challenged us close to him with the claim that “We know a lot about how a free economy operates, but we know a lot less about how a free society operates.” He insisted that we must remedy this intellectual shortcoming. A first step in achieving that is the recognition of the two-levels of analysis that Kirzner insists we recognize in spontaneous order studies. His warning about stretching spontaneous order explanations beyond the context of the market must be heeded, but turned into a challenge for us to search for underlying mechanisms. It is in identifying those mechanisms and grappling with the “hard cases” of social dilemmas and social ills that we will come to learn precisely how the entrepreneurial element in human action can be channeled to realize the gains from mutual cooperation not only in the marketplace, but in all of human endeavors. This is how we will progress from our profound knowledge of how a free economy operates to understanding how a free society operates.

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