

AUSTRIAN

ECONOMICS NEWSLETTER

SPRING 1997

The Kirznerian Way

An Interview with Israel M. Kirzner

AEN: You were Mises's assistant for some years.

KIRZNER: Yes, and in addition to attending his weekly lectures, I spent time in his office downtown being available for his students. He used to read my manuscripts, and I was honored to have him write the introduction to *The Economic Point of View* (1960). Otherwise, he didn't comment very much on my work, and we didn't have extensive discussions on the details.

It was not easy to discuss matters of theory with Mises. He was always gracious, polite, and kind, but at the same time reserved. There was also a bit of a language barrier. He spoke English perfectly, but I think he still *thought* in German.

I would never claim that my interpretations of Mises were given his personal approval. Most of what I understood of Mises was attained from diligently studying and thinking about passages in *Human Action* again and again.

AEN: Any other insights on Mises the man?

KIRZNER: He was a man of great integrity. I remember an episode after completing my master's degree in 1955. I was studying with Mises and was strongly under his influence. But I also applied for fellowships at other schools. I received an offer from Johns Hopkins. I went to ask Mises's advice on whether I should go. Even though he had very few students, he told me

to accept the offer. He pointed out that Fritz Machlup teaches there, and that Johns Hopkins is a prestigious school. As it happens, I *did not* take his advice, but this says something about his concern for his students' interests. It was an extraordinary gesture on his part.

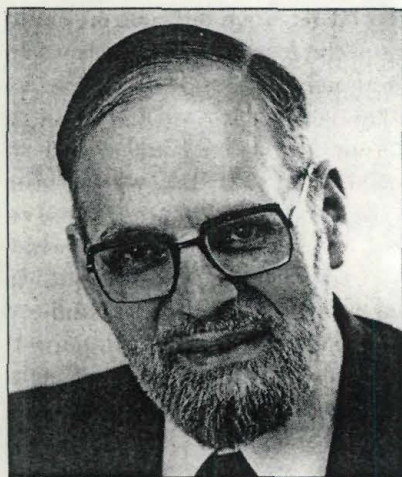
AEN: How were you first attracted to Mises?

KIRZNER: At first, I did not know who he was. But as I was looking around for programs and professors, I *did* happen to notice that Mises seemed to have more books than anyone else. I found that impressive, so began my studies with him. Eventually I was hooked.

AEN: Did you know you were getting involved in a school of thought that most of the profession regarded as old-fashioned?

KIRZNER: Not at first. But I eventually came to realize that the mainstream of the profession was headed in a different direction. In 1954, there was no Austrian movement. There was no Austrian School. There was Mises, and there was Hayek. They must have been seen as the last of their generation, and not too much of a threat.

Now, I don't regard my choice as heroic by any means. True, I was isolated as far as the profession was concerned. But I received my PhD, taught at New York University, did my work, and published my books. I was content with this, and had no great difficulties. Gradually, as the sixties wore on, I began to think I had an idea that might even have an impact on the profession.



No living economist is as closely identified with the Austrian School as Israel M. Kirzner, professor of economics at New York University, a leader of the generation of Austrians after Mises and Hayek, and an adjunct scholar of the Mises Institute. He wrote his dissertation under Mises, later published as *The Economic Point of View* (1960), and broke new theoretical ground in his *Competition and Entrepreneurship* (1973).

Kirzner is author of seven additional books, his newest on capital and interest from Edward Elgar (1997), and dozens of articles, including several in the *Austrian Economics Newsletter* and *The Review of Austrian Economics*. He was interviewed in his office at NYU following the weekly Austrian Colloquium.

Indeed, *Competition and Entrepreneurship* interested some reviewers at the University of Chicago Press, which pleased me very much.

AEN: When you look at the Austrian School today, what do you think?

KIRZNER: Its sheer size is very pleasing, of course. To some extent, the fact that the profession at large has moved even further along in the technical-mathematical direction created an opening for the Austrian School among younger scholars. They began to see the sterility and aridity of the way the mainstream has gone. The Austrian School appears as a whole different way of approaching the discipline. And today, there is room out there for Austrians in the profession—however, not yet at the top of the profession.

AEN: In today's colloquium, and in your writings, you seem to be increasingly occupying what's sometimes called Austrian "middle ground."

KIRZNER: No question. This has been true ever since people have begun to take more extreme positions on the question of the uses of the equilibrium construct in economics. When they began to deny its relevance altogether, I began to realize that my position is not as extreme as theirs. The phrase "middle ground" was first used by Roger Garrison to describe a theoretical position that neither entirely spurns nor fully embraces a construct like equilibrium that is most often associated with neoclassical economic thought.

AUSTRIAN ECONOMICS NEWSLETTER

Spring 1997 — Volume 17, Number 1

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The *Austrian Economics Newsletter* is published quarterly by the Ludwig von Mises Institute, Auburn, Ala. 36849-5301; (334) 844-2500, fax (334) 844-2583, internet: lvmmises@mail.auburn.edu, web site: www.mises.org

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AEN: Is it excessive subjectivism that troubles you?

KIRZNER: I wouldn't say so. The argument that says we can't use equilibrium constructs at all is not a valid use of subjectivism. It takes economic theory in an entirely different direction.

AEN: What is the middle ground on the question of equilibrium?

KIRZNER: The two extremes, simply stated, are "equilibrium always" and "equilibrium never." The "equilibrium always" view is the strict neoclassical/Chicago perspective which never permits us to consider a world in which everything is not completely adjusted. The other extreme is one in which there are no systematic, overriding tendencies that could lead to regularity. I don't think an Austrian economist can be satisfied with either of these positions.

Austrian economics cannot be "equilibrium always," but neither can it be "anything goes." As Mises used to say, it was the great contribution of the classical economists to enunciate the concept of economic law. There are, indeed, systematic consequences to our actions. If one accepts that economics is the study of those systematic consequences, one cannot live with a perspective that sees the world as so open-ended that anything is possible. That's why I would disagree with the characterization of economics as essentially the study of the unfolding of an uncertain future.

AEN: Is Professor Mario Rizzo correct that Austrians must think in terms of non-equilibrium "real time" as versus some static variant?

KIRZNER: I think it is highly useful to think in non-equilibrium terms, to be open to the possibility of change and surprise. You certainly cannot do good economics without understanding the role of surprise. But if one pursues this to the point where the surprises tend to overwhelm the regularities, then I don't believe you have a science that reflects existing realities.

AEN: There's an impression out there that you believe entrepreneurship is always equilibrating. Is this a mischaracterization of your position?

KIRZNER: Yes. Entrepreneurship is not always equilibrating. The equilibrating features of the real world ought to be ascribed to entrepreneurship; it doesn't follow that all entrepreneurship is always equilibrating. Entrepreneurs make losses, and losses are not equilibrating.

The idea I reject is this: there is successful entrepreneurship, there is unsuccessful entrepreneurship, and it's a toss-up which is going to outweigh which in the end. That was Frank Knight's position, by the way, and I think that is a mistake.

The fundamental Misesian insight into human action is that it involves a tendency to be right rather than to be wrong. People have an interest in being right. They do not have an interest in being wrong. This definitely, distinctively weights the tendency of human action in the direction of being right.

This does not guarantee "equilibration always." And certainly a permanent equilibrium is out of the question. It would be incorrect even to imply that in any given time period, the changes we observe are necessarily equilibrating. But there are tendencies which tend to overwhelm disequilibrating forces in the market, most of the time.

AEN: Are there times when disequilibrium is a sure thing?

KIRZNER: Much depends on the nature of the exogenous changes we are experiencing. In a world in which change is of such a volatility that entrepreneurial activity and action are continually frustrated, we will find continual non-equilibration. There are historical circumstances in which chaos, violence, and uprisings do indeed overwhelm orderliness and evolution. Perhaps we can even point to such occasions. For equilibrium to be the regular tendency, we do need, empirically, a certain environment of stability.

AEN: Can you give an example of such volatility?

KIRZNER: Suppose people's tastes change every day, *drastically*. Sometimes they like the temperature inside to be 32 degrees; other times, they like it very hot. Sometimes people eat three times a day; sometimes only one. Sometimes they like to wear shoes; other times, they insist on going barefoot. Suppose that technology were to change *drastically* and in unexpected ways. This is extreme volatility. In these times, we have no guarantee whatsoever that a market theory can really provide a systematic understanding of change. In such a world there would be so little that is stable, I don't believe an economic theory would be of much help.

AEN: In these times, does economic law cease to exist?

KIRZNER: Not at all. It only becomes more difficult to take account of the pattern of change. For example, we can always predict that an increase in demand will increase the price. But under extreme volatility, demand changes and wobbles so quickly that the forces that would otherwise cause prices to rise will be swamped temporarily by forces that cause them to fall. We can't rule it out. But economic law still continues to be the underlying reality.

AEN: Do you regard Joseph Schumpeter's theory of entrepreneurship as an Austrian theory?

KIRZNER: There's a good deal of controversy about that. There was personal tension between Mises and Schumpeter, and most of what we would currently identify as key Austrian features were not accepted by Schumpeter. Walrasianism did dominate his thinking.

Yet I have defended Schumpeter as an Austrian in a very special way.

He never really bought into the neo-classical view of "equilibrium always." Certainly his emphasis on the entrepreneur is consistent with that. He never forgot the lessons he learned from Austrians, even if he *tried* to forget them. The Austrian revival owes something to Schumpeter.

AEN: What is the relationship between his theory and yours?

KIRZNER: Let me recognize that in my 1973 book I was perhaps overeager to draw a distinction between Schumpeter and myself. In later writings I have pulled back somewhat from that. I have recognized that you can subsume the Schumpeterian entrepreneur under my own theory, if you like.

For Schumpeter, the entrepreneur was a disrupter. He breaks an existing, evenly-rotating system. Paul Samuelson has a metaphor for Schumpeter's view of the world. He said it's like a violin string. You pluck it, it vibrates, and finally settles down. I would say that Schumpeter saw the entrepreneur as the person who is doing the plucking from a taut position, generating the change.

All the vibrations are attributed to his action.

Originally, I emphasized the other side of the issue. The entrepreneur generates a tendency to restore the evenly-rotating system to a new level or a new pattern. But it is the restoration, not the disruption, that is brought about by the entrepreneur.

AEN: How would his, and your, theory apply to a specific technological change?

KIRZNER: Imagine Victorian England, where everything is calm and still, with horse carriages and trains carrying people here and there. Along comes the entrepreneur who invents the automobile. The stillness is utterly

shattered. People lose jobs and physical resources are shifted to new lines of production. All of this is to be ascribed to the entrepreneur in Schumpeter's view.

In one sense this is correct. But my 1973 book emphasizes a different point. We have to recognize that when the entrepreneur discovers the automobile, he is not simply disrupting the calm. He is identifying what was in fact waiting to be introduced. Technological knowledge was being misapplied. Resources were being wasted on trains, carriages, and bicycles, when, in fact, what was waiting to be put together was this new gadget called the automobile. A person who recognizes this is responding to a preexisting, gaping hole in the market.

Of course, the role of the entrepreneur can be understood as disrupting in a very down-to-earth sense. People had jobs and their jobs are destroyed. People had careers, and they are now gone. Granted. But what appear to be disruptions aren't disruptions at all. They are simply the revealing of misallocations that were there before.

Very often people object. "You say entrepreneurship is coordinating, but surely an entrepreneur who discovers new ways of doing things is putting people out of work and disrupting people's expectations."

Yes, he is, but in a more fundamental sense, he is correcting an already existing discoordination. He is redirecting resources that are already misplaced. People do not have to go on for years and years behaving in ways that are socially inefficient. The person who abruptly draws their attention to this inefficiency is assisting in the process of economic coordination. However, this does not reduce, in any way, the importance of Schumpeter's focus on the innovation of the entrepreneur. Nothing I have said should be interpreted to do so.

AEN: What do you mean in saying something is "waiting" to be discovered?

KIRZNER: Philosophically, people

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have objected to that. I do not mean to convey the idea that the future is a rolled-up tapestry, and we need only to be patient as the picture progressively unrolls itself before our eyes. In fact, the future may be a void. There may be nothing around the corner or in the tapestry. The future has to be created. Philosophically, all this may be so. But it doesn't matter for the sake of the metaphor I have chosen.

Ex post we have to recognize that when an innovator has discovered something new, that something was metaphorically waiting to be discovered. But from an everyday point-of-view, when a new gadget is invented, we all say, gee, I can see we needed that. It was just *waiting* to be discovered.

AEN: Consumer demand was there, resources were there, and the technology was there. . .

KIRZNER: Yes, so there was no reason why it wasn't being done. The entrepreneur is alert to this reality, to the profit opportunity it represents, and responds creatively to it.

AEN: Some have said your careful definition of the "pure" entrepreneur is excessively abstracted from that of the capitalist, and that in this respect your theory departs from Mises.

KIRZNER: I know that Murray Rothbard and Joe Salerno have suggested this, but I don't think it is correct. Frankly, I've always thought I picked up the idea of the "pure entrepreneur" from Mises. I've written a comment on this view in a book edited by Bruce Caldwell and Stephen Boehm [*Austrian Economics: Tensions and New Directions*, Boston: Kluwer, 1992]. I argue that it depends on your analytical purposes. We recognize that in the real world the pure entrepreneur never exists. A pure laborer never exists. A pure capitalist never exists. Yet it remains highly useful to speak of the pure entrepreneur.

AEN: In theory, then, if not in reality.

KIRZNER: Yes, but I have no difficulty in recognizing the theoretical meaning of the pure entrepreneur. The more difficult question is: can

you have a capitalist who is not an entrepreneur? In a world of uncertainty, I don't believe so. If there is no pure capitalist, because every capitalist must also be an entrepreneur, then what does one gain by talking about the pure entrepreneur? It helps us to understand the precise nature of his contribution to the process of economic change.

Let's assume that all the uncertainty in the world is subsumed within the entrepreneur, and nobody else has any element of uncertainty. The actions of everyone else are not human actions; they are the movements of robots. Neither the laborers, nor the capitalists, nor the consumers are entrepreneurs. They are Robbinsian maximizers. In this world, the pure entrepreneur buys resources at prices which are known to the resource sellers, sells them at prices which are known to the buyers, and he's the one who sees the difference between the two.

In the real world, of course, no one performs a purely non-entrepreneurial function. The consumer is an entrepreneur, the capitalist is, and the laborer is too. They are all taking risks, taking leaps. They are all forgoing some opportunities for others. Granted. But that doesn't by itself preclude us from talking about the central entrepreneurial function of being alert to new opportunities, of discovering something that others have not seen.

AEN: And this understanding is consistent with your 1973 book?

KIRZNER: I don't believe I've made substantial revisions. I've made revisions from my earlier books. My *Economic Point of View* [1960], *Market Theory and the Price System* [1963], and *Essay on Capital* [1966] were not informed by the entrepreneurial insights, which I only gained later.

AEN: *Market Theory and the Price System* is said to have made a contribution to the Austrian view of efficiency.

KIRZNER: I sweated a great deal over that book. I put a tremendous amount of thought into trying to translate Misesian economics, as I understood it then, into terms that would be understandable to the profession at large and usable at the undergraduate level. It wasn't easy. It is probably the winner in a contest over having sold the least copies.

AEN: Do you regard your entrepreneurial insight as a bridge between the Austrian and neoclassical worlds?

KIRZNER: The word "bridge" is a diplomatic word. I've been accused of turning Austrian economics into a footnote of neoclassical economics. I think that is incorrect. But I would accept the word "bridge." It is a bridge in the best sense of the term.

Neoclassical economics in its modern version is an "equilibrium always" theory. It didn't used to be that way. Frank M. Machovec has written a book in which he points out that the great neoclassical thinkers from 1880 to 1930 did not really believe in a world

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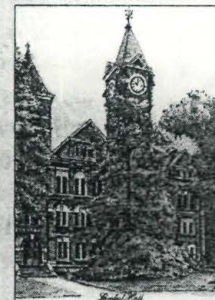
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built on equilibrium theory. They thought about the price system as a competitive process. It's the modern version of neoclassical economics that has been Walrasian—and Machovec goes further to argue that not even Walras believed in "equilibrium" always. I don't think I would go that far, but I see his main point.

The idea of the entrepreneur enables us to see how there might conceivably be an equilibrium system, or why an equilibrium system might be of any interest to us. Even if we deny that equilibrium is ever attained, we can look at neoclassical theory and understand it in relationship with Austrian theory.

When Mises talked about the evenly rotating economy as a model against which to understand equilibrating processes, he is doing exactly what should be done. We can understand market process theory by *contrasting* it with equilibrium states. How can a contrast be a bridge? It can by drawing attention to the role of equilibrium models in understanding the process. But I strongly disagree with those who have said that this theory of the entrepreneur merely restores neoclassical economics to its pristine glory.

AEN: But if a neoclassical economist told his class about Kirzner's theory of entrepreneurship, that would be an improvement.

KIRZNER: Certainly, given today's rigid environment. Once, however, I gave a talk on the Austrian view of the market process, and the late Abba Lerner was there. He said that what I was calling the Austrian view is precisely what he had been taught in school and had long accepted. I'm sure it's true. The perfectly competitive model was never dominant in neoclassical economics until E.H. Chamberlin and Joan Robinson brought us imperfect competition. Then, they retroactively attributed *perfect* competition to those that preceded them.

AEN: Prior to this, Mises even thought of himself as within the *mainstream of thought*.

KIRZNER: That's right. There's a passage which I've often quoted from a 1932 piece where Mises is saying that all modern schools of economics are basically saying the same thing. That is very revealing. What did he mean? He was noting that all schools have abandoned the German historical school. In short, *vis-a-vis* the common enemy, they are all saying the same thing.

Later on, the differences between the schools—Walrasian, Marshallian, Austrian—began to widen. Think of them like three parallel runners who start off close to each other but move progressively further apart as they proceed.

By the time I came to study under Mises in 1957, I don't believe he would have subscribed to the view that all schools taught the same thing.

AEN: What in particular changed Mises's mind?

KIRZNER: I've made the argument, in *The Review of Austrian Economics*, that it was partly a result of the socialist calculation debate in the 1930s. This debate exposed deep differences between Austrians and others in the very conception of what the market is and how it works. I think it's true of Hayek too.

AEN: Congratulations on the new edition of *An Essay on Capital*, along with two additional essays, just out from Edward Elgar. How did that earlier book come about?

KIRZNER: When I wrote *An Essay on Capital* in 1966, I didn't believe I was breaking any new ground. After completing my 1963 book, I spent several years hoping to write a history of capital theory since the 1880s. I found myself getting deeper and deeper in what I found to be an endless muddle of ideas, confusion of purposes, and definitional ambiguities. I finally gave up. I found instead that it would be

useful for me to write down in clear and simple terms a summary of what I got out of my research, in light of the Misesian framework.

AEN: Can you summarize the argument of this work?

KIRZNER: Usually, people look at capital as objects, usually highly valued objects. That tempts us to think that physical capital is itself the source of the flow of income. The view of capital I present relates directly to the purposes of individuals. I insist that Austrians see capital as the intermediate form in which plans are brought about.

I like to use the metaphor of the half-baked cake in an oven. This is a desk, and the person who made it was planning that I would use it to write on, put papers on, and so on. By itself, the desk is a half-baked cake, just as are cars, buildings, and machines.

It goes back to Eugen von Böhm-Bawerk's view of inchoate output. We must look at capital, not in objective terms, but as representing the plans of individuals and their forecasts of the future. There are overlapping, multi-period plans, of course, so that new cakes are going into the oven before old ones come out.

AEN: It is said sometimes that Hayek should not have spent so much time writing the treatise on capital that appeared in 1941.

KIRZNER: He expected that book to be followed by a subsequent volume, I believe. He stuck it out, and produced a very difficult book that is largely ignored today. I have some criticisms of that book too, and it is good that he moved on, but it was an honest and grand effort.

AEN: In those early years, did you have a goal of doing more macro-oriented work?

We must look at capital, not in objective terms, but as representing the plans of individuals and their forecasts of the future.

KIRZNER: No. I have never really seen myself as a macroeconomist. Of course I've taught macro for many years, yet I felt I never *understood* Keynesian economics. It assumes that decision making doesn't matter. All that matters are the relationships between totals. While I often pointed out what seemed to me gaping holes, I had no great desire to counter this with a separate macroeconomic theory of some sort.

AEN: You've never thought of providing a systematic critique of the Austrian business cycle theory, for instance?

KIRZNER: No, I've never had too much interest in the Austrian business cycle theory. I've never felt that the Hayekian business cycle theory was essentially Austrian. In fact, Mises, who was the originator of this whole idea in 1912, didn't see it as particularly Austrian either. There are passages where he notes that people call it the Austrian theory, but he says it's not really Austrian. It goes back to the Currency School and Knut Wicksell. It's certainly not historically Austrian. Further, I would claim that, as developed by Hayek, there are many aspects of it that are non-Austrian. I don't believe that to be an Austrian you have to buy into the Hayekian view of business cycles.

AEN: Are there any aspects of Hayek's business cycle theory that you regard as Austrian?

KIRZNER: I recently wrote a paper to accompany the facsimile German edition of *Prices and Production*. I identified what seemed to me to be elements of Hayek's later work on coordination, miscoordination, and knowledge. I argued that the germs of his later ideas can be traced to this volume, especially his description of the upswing stage of the cycle. This is a phase during which some decisions are out of sync with other decisions. Current investors are making decisions which anticipate the decisions of others down the road, which are in fact not there. Leaving the exact

mechanism aside, that is the kind of thing Hayek taught us to look for in analyzing the market process. In that respect, it's Austrian.

AEN: And the rest of the theory?

KIRZNER: Otherwise, the Austrian theory of the business cycle is a macro theory. It's an equilibrium theory. And it treats capital in an objective sense rather than a subjective sense. It treats time as somehow embedded in the capital goods themselves. So I've always had a certain reserve about that particular theory, however brilliant it may be. I think the way Hayek developed it was not quite consistent with the way Mises laid it out in 1912.

AEN: Do you accept the idea that interest-rate manipulation by the central bank can cause distortions in the structure of production?

KIRZNER: Certainly the Austrian cycle theory showed brilliantly how this can happen. But it's one thing to develop a theory which could explain a downturn. It's quite another to claim that historically every downturn is to be attributed to that particular theory. That does not necessarily follow. If one were asked, does this theory necessarily explain each and every cycle, I would say no.

Mises used to poke fun at those who criticize the Austrian theory of the business cycle as being too simple. He said that still doesn't tell what's wrong with it. That's correct, as far as it goes. Perhaps many market aberrations are of this kind. But that can only be a question of historical understanding. We must be able to look at every case to see just what is happening.

AEN: Should Austrians insist that the scope of Austrian theory be limited to only praxeologically valid theorems?

KIRZNER: No, I'm not saying that Austrian economics should not deal with applications of praxeology. But

it's one thing to explain what must necessarily follow under certain assumptions. It's another to take this and claim, without justification, that this therefore is *the* explanation for a particular empirical phenomenon. There's a danger in doing that.

The way Hayek developed the business cycle theory was not quite consistent with the way Mises laid it out.

AEN: In recent years, you've written about the implications of entrepreneurial discovery for matters of ethics and justice, and particularly the idea of "finders keepers."

KIRZNER: Let me be clear. Finders keepers is not necessarily my preferred ethical teaching. I am not proclaiming it should be followed. I'm not an ethicist; I'm an

economist. I'm merely suggesting ways that people's own ethical conceptions can be applied to economic categories. I picked up the phrase "finders keepers" from Murray Rothbard, who got it from a book by Henry Oliver. I then linked the finders-keepers ethic to the idea of entrepreneurial discovery, which I discuss as a new kind of finding.

By "finding," I do not mean that someone is walking along the street and sees something in the gutter. I mean finding a new way of producing something, coming up with a new gadget, discovering some way of meeting an unmet need. Once you broaden the concept of finding, the finders-keepers ethic becomes immediately relevant. A theory of justice that considers the role of entrepreneurship will have a place for the finders-keepers ethic, an ethic that would not come into play in an equilibrium view of markets.

AEN: What is the most direct application of this concept?

KIRZNER: To the morality and justice of profits. People have great difficulty with justifying how someone can pocket money that is over and above what it costs to produce it. If someone buys something for \$10, and sells it for

\$17, why does he get to keep the \$7? It seems to many people that it's pure luck that you can sell it for a higher price, and the products of luck should probably belong to all mankind. Or it might seem to be a fraud or a con job.

Those are the obvious ethical problems. But those problems appear only insofar as we assume that everyone begins with potentially full and equal knowledge. In that case, this \$7 profit might represent an attempt to deceive. But if people lack knowledge that someone else has, does taking advantage of that constitute fraud? I don't take a position *qua* ethicist. I am simply pointing out that the finders-keepers ethic may throw light on this problem. The entrepreneur, after all, found value in something.

AEN: And this is different from merely paying for expertise?

KIRZNER: I don't believe in defenses of profit that say we have to pay for people's know-how and skills. These items will have their own independent price on the market. Pure entrepreneurial profit rises above all of these costs, and it needs a separate defense. It is not a payment for something for which a price can be established; the entrepreneur is paid for overcoming ignorance through alertness. A person might say, you have no right to cash in on somebody else's ignorance. Now is everybody who makes a pure profit cashing in on somebody else's ignorance? In fact, yes. Full and equal knowledge is not a reality. If people could not cash in on other people's ignorance, there would be no such thing as pure profit.

AEN: Among the items integral or incidental to Austrian economics, where does the pure-time-preference theory of interest stand?

KIRZNER: I can imagine an Austrian economist who might not fully accept this theory of the origination of interest. I myself have never understood exactly what Mises meant by giving pure time preference an *a priori* basis. When I say I don't understand it, I mean literally that, and not that it's wrong. It

is a very difficult chapter in Mises.

The pure-time-preference theory I've written about is not based on *a priori* reasoning. I've merely concluded that time preference is a reasonably universal empirical phenomenon. I ask my students: do you know anybody who is indifferent between receiving a paycheck now and receiving it in ten years? The answer is no. To me, that is enough to provide the basis of the theory.

AEN: You don't rule out the possible existence of negative rate of time preference?

KIRZNER: I would be surprised, but I don't rule it out apodictically. If there is a tax on bank balances that is sufficiently high, it would pay people to lend money at negative interest, provided the interest is less than the tax rate. Is that negative time preference? Probably not, but it does show that a positive rate of time preference can coexist with a negative rate of interest. That seems to be what Mises is denying, so my theory cannot claim to present the Misesian view.

AEN: Is it right to say you have adopted a Misesian rather than Rothbardian view of monopoly?

KIRZNER: That is correct. Mises had a view of monopoly in which he said that under certain exceptional circumstances, the pattern of resource ownership may fly in the face of the interest of consumers.

Ordinarily, the ownership of a resource provides value to its owner only to the extent he is prepared to put that resource to use in the service of the consuming public. The only possible exception is where the entire supply of a scarce resource, for which there are no substitutes, happens to be in the hands of a single seller. It *may* indeed be the case that the interests of the resource owner may be counter to that of consumers. In other words, the

resource owner may discover an advantage in producing less of a product for consumers than consumers themselves desire.

This is a possible conflict of interest, and, for Mises, an extraordinary phenomenon. Here we see Mises's integrity. He was willing to recognize that it's not always true that a private-property system conduces to the well-being of the consuming public. He

didn't think it was an important case, but he did draw attention to it. He did *not* use this exceptional case to argue for controls over monopolies.

I too think this point is interesting. I don't believe it is empirically important. It doesn't provide justification for monopoly regulation, or breaking companies, or anything like that. It simply

points to a theoretical implication of certain patterns of resource ownership.

Others have disagreed. Rothbard used to say you can never really know if a producer is storing up resources in order to gain more profits or whether his doing so is even contrary to the interest of consumers. That's true. You never will know. But the theoretical possibility is still there.

AEN: A recent controversy has centered on the attempt to "de-homogenize" Mises and Hayek. Do you think this debate has been constructive?

KIRZNER: The short answer is no. Most definitely no. Such thinkers as complex as Mises and Hayek are not going to be identical at every point. There were differences between them, and these differences should be studied, developed, and their roots identified. Certainly. But for what I believe to be the major agenda of Austrian economics, the points of commonality between Mises and Hayek are far, far more important than what I consider to be the marginal differences. To

Is everybody
who makes a
pure profit
cashing in on
somebody
else's
ignorance?
In fact,
yes.

draw a division between them is a major mistake, and possibly a tragic one.

AEN: Why do you say tragic?

KIRZNER: Tragic from the standpoint of the influence of Austrian economics on the profession in general. Moreover, if people believe they must choose between being Hayekians and being Misesians, they are going to say, well, Hayek was the Nobel Prize winner, so he must have done the better work; Mises will be neglected.

KIRZNER: How do you regard Ludwig Lachmann's contributions to the Austrian School?

AEN: Lachmann played a vital role in the revival of Austrian economics. He was a gadfly. He kept us honest. He had a personal link with Mises and Hayek that nobody else had. He was a bridge between the generations. He had deep respect for Mises and Hayek, even where he disagreed with them. He showed young students that you could be a respected economist even if you thought Mises was a great thinker.

Doctrinally, Lachmann was much closer to the extreme Shackelian position on choice, uncertainty, and time, and went much further than I am willing to go. At the same time, he was a circumspect scholar. He was careful to keep a lot of his ideas to himself. But I believe he was trying to steer Austrian economics in a more subjectivist direction.

AEN: And Murray Rothbard?

KIRZNER: Rothbard was unquestionably a genius. His *History of Thought* exemplifies his life-long ability to absorb an enormous amount of literature and write clearly. He played an important role in inspiring young scholars to take a careful look at the Austrian body of thought. Just as I have had disagreements with Lachmann, I've had them with Rothbard, in matters of style and in matters of substance. Some of his impact was deepened, and some of it qualified, by his ideological work in libertarian political theory.

AEN: What about Frank Fetter of Princeton?

KIRZNER: Yes, he too made valuable contributions. Rothbard did a fine job in drawing together his essays on interest. I don't believe that Fetter can be considered an Austrian except in this one narrow area, however.

AEN: What is your most overlooked contribution to Austrian economics?

KIRZNER: Chapter seven in my 1963 book, which I've often cited to students and colleagues. It's where I provide a scenario of the spread of knowledge in the market process, starting with a non-equilibrium state and building to a systematic process of learning. It provides, I think, a very useful framework.

AEN: Are you generally optimistic about the prospect for the Austrian School?

KIRZNER: Austrians never make forecasts in their role as scientists, but I will venture this. There is work for us to do. There is a generation open to these ideas. The developments of the last 20 years demonstrate this. So, yes, I am optimistic. That's a frame of mind, not a forecast. ♦

AUSTRIAN
ECONOMICS NEWSLETTER

Ludwig von Mises Institute
Auburn, Alabama 36849-5301

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