

ISRAEL M. KIRZNER

By
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INTRODUCTION

Without doubt the most important individual, both intellectually and organizationally, in the revival of Austrian economics has been Israel M. Kirzner. Kirzner's thorough scholarship, reasonable attitude, and commitment to truth serve as the guideposts to young Austrians as to how to conduct themselves in an academic market that has often been hostile toward their ideas. His organizational efforts have produced several key conferences on Austrian ideas, as well as some of the most important books on developments within the modern Austrian school. If Ludwig von Mises could properly be referred to as the "don" of the Austrian school in the 1950's and 1960's, then clearly Israel Kirzner holds that honor in the 1980's.

INTELLECTUAL BACKGROUND AND DEVELOPMENT

Born in England in 1930, Kirzner and his family moved to South Africa in 1940. In 1947, he attended the University of Capetown, but moved to the United States at the end of the academic year. After graduating from Brooklyn College in 1954, Kirzner decided to pursue a graduate degree in Business with a concentration in accounting, at New York University, as was awarded an MBA in 1955. While completing his course work for the MBA, Kirzner happened to meet Ludwig von Mises, and changed his career path from professional accountancy to academic economist. Kirzner wrote his dissertation under Mises at New York University, and was awarded his PhD in economics in 1957. At that time he received an appointment as a professor of economics at New York University, and has been there ever since.

MISES AND PRAXEOLGY

Kirzner's first book, *The Economic Point of View* (Sheed and Ward, Inc., 1976 [1960]) developed out of his PhD dissertation at NYU. He explores the development of economic thought concentrating on the meaning that economists have attributed to their subject of study. The key chapter in the book seeks to elaborate the development of praxeological thought from Max Weber to Ludwig von Mises. Crucial to Kirzner's analysis is the distinction between the further development of Weberian insights found in Lionel Robbins, and those found in Mises.

Robbins, perhaps the most influential writer on the definition of economics, is responsible for the standard definition of economics that everyone learns in college principles textbooks: economics is the study of the allocation of scarce means among

competing ends. Weber had limited economic analysis to the discussion of rational action, i.e., calculating action with regard to ends and means. The economizing problem found in Robbins is an outgrowth of this concentration on instrumental reasoning (c.f., *The Nature and Significance of Economic Science*, Macmillan, 1952[1932]).

Mises, however, criticized Weber for this limited view of action, and, instead, tried to broaden the scope of economics to discuss the implications of purposive human action (c.f., *Epistemological Problems in Economics*, New York University Press, 1981[1933]). To Mises the opposite of rational action was not irrational action, but non-action. Economizing behavior is part of economic analysis, not synonymous with it.

It is essential, Kirzner argues, to distinguish between the Robbins and Mises development of praxeology. All of Mises' unique contributions to the various fields of economic theory, states Kirzner, are the result of the consistent development of the praxeological perspective on the nature of economic science. "If economic theory, as the science of human action, has become a system at the hands of Mises, it is so because his grasp of its praxeological character imposes on its propositions an epistemological rationale that in itself creates this systematic unity" (Kirzner, *The Economic Point of View*, p. 160).

Economics, as the most developed branch of praxeology, must begin with reflection upon the essence of human action. "Purpose is not something to be merely 'taken into account': it provides the sole foundation of the concept of human action" (ibid., p. 165). The theorems of economics, i.e., the concepts of marginal utility and opportunity cost, and the principle of demand and supply, are all derived from reflection upon purposefulness in human action. Economic theory does not represent a set of testable hypotheses, but rather a set of conceptual tools that aid us in the reading of the empirical world.

Following the methods of the natural sciences, for example, one could develop "scientific" explanation of a man placing pieces of paper in boxes. At 3:30 every afternoon, the scientist observes that a man moves from house to house putting pieces of paper in the little boxes that sit in front of these houses. One could develop a testable hypothesis and make "predictions" concerning this data, i.e., "at 3:30pm this man in a blue suit will place paper in the little boxes that are placed on the street in front of the different homes." The scientist can then "test" his hypothesis against the data derived from observation. The hypothesis is then either rejected or, for the moment, fails to be rejected. But what is unique about the human sciences, as opposed to the physical sciences, is that such an explanation would miss the essential point of the phenomenon under study. (It has been argued by practicing scientists and a historian of science that positivism also represents a rather naive view of how the natural sciences work, let alone the human sciences, c.f., Michael Polany, *Personal Knowledge*, University of Chicago Press, 1962[1958]); and Thomas Kuhn, *The Structure of Scientific Revolution*,

University of Chicago Press, 1970[1962]).

The human scientist can assign purpose to the phenomena under discussion. In fact, he must assign human purpose if he wishes to render those phenomena under investigation intelligible. We can understand that paper is not just being stuffed into boxes for no reason, but rather that a postman is delivering mail to individuals. The human scientist can, in fact, must rely upon the knowledge of ideal typifications of other human beings.

We know some human beings because of our daily face-to-face relations with them, i.e., friends, family, co-workers. Other humans we know through the functions they perform or beliefs they supposedly hold, i.e., "postman," "policeman," "libertarian," etc. The majority of others, however, we simply know in anonymity as "man," i.e., a being who freely chooses and strives to obtain his goals by arranging and rearranging his means. We can understand the purposeful behavior of "the other" because we, ourselves, are human. This knowledge, referred to as "knowledge from within," is unique to the human sciences, and it was an utter disaster to try to eliminate recourse to it by importing the methods of the natural sciences to the social sciences to create "social physics." Scientists forgot that, while it was desirable to eliminate anthropomorphism from the study of nature, it would be completely undesirable to eliminate man, with his purposes and plans, from the study of nature, it would be completely undesirable to eliminate man, with his purposes and plans, from the study of human phenomena. Such an exercise results in the mechanamorphism of the human sciences, i.e., attributing mechanical behavior to creative human subjects. In such a situation, we end up talking about the economic behavior of robots, not men.

MECHANICS, MARKETS, AND POLICY

Apparently mundane issues of epistemology and methodology possess profound implications for practical policy, Mises would often argue. As Kirzner states:

Mises saw the denial of economics as an alarming threat to free society and to Western civilization. It is economics that is able to demonstrate the social advantages of the unhampered market. The validity of these demonstrations rests heavily on precisely those insights into human action that positivist thought treats, in effect, as meaningless nonsense. What inspired Mises' vigorous and spirited crusade against the philosophic underpinnings of an economics not founded on human purposefulness was more than the scientist's passion for truth, it was his profound concern for the preservation of human freedom and dignity (c.f., "Forward," in Ludwig von Mises, *The Ultimate Foundations of Economic Science*, Sheed, Andrews and McMeel, Inc., 1978[1962]), p. vii, emphasis added).

It is a small step, Kirzner has demonstrated from Robbins definition of economics as the economizing problem to the maximizing paradigm that dominates standard economic theory today. This concentration on maximizing within given constraints produced a mechanistic view of the market that is both highly misleading with regard to understanding real world markets, and undesirable as a tool for policy espousal. Economic arguments about the inefficiency of markets, and the desirability of government intervention are intimately connected to a mechanical interpretation of market phenomena.

Kirzner, in his consistent development of Misesian insights, has fought against mechanistic representations of the market. He has continually argued that economists should move beyond the exclusive focus on equilibrium states of affairs, and concentrate their efforts instead upon explicating the principles of market processes.

Kirzner has concentrated his research efforts upon this task throughout his career. His second book, *Market Theory and the Price System* (D. Van Nostrand, 1963) was an attempt to provide a price theory text book from a market process perspective. In *An Essay on Capital* (Augustus M. Kelley, 1966), Kirzner's third book, he demonstrates the problems that confront theories of economic processes that fail to take into account the plans and purposes of individual economic actors, and instead focus on the static conception of equilibrium. To understand the capitalistic production process, Kirzner argues, the theorist must trace economic phenomena back to the purposes and plans of the individual decision makers, and recognize the intertemporal coordinating role of capital markets. The question of how these individual plans ever come into coordination with one another lead naturally to Kirzner's elaboration of the crucial role of entrepreneurial action within the capitalist exchange and production process. Professor Kirzner has made his most potent and systematic statements on the nature and significance of market processes in his work on the entrepreneurial character of human action.

Competition and Entrepreneurship (University of Chicago Press, 1973) is perhaps Kirzner's most famous book. In this work he argues that the task of price theory should not be "seen as primarily concerned with the configuration of prices and quantities that satisfies the conditions for equilibrium." Rather, with Kirzner's approach to price theory "we look to price theory to help us understand how the decisions of individual participants in the market interact to generate the market forces which compel changes in prices, in outputs, and in methods of production and the allocation of resources" (*ibid.*, p. 6). And this is the key point.

Standard economists have for a long time recognized the internal weakness of models of general competitive equilibrium. In order to build the model to the specifications of a frictionless machine, the economist had to make certain assumptions, such as: numerous buyers and sellers, perfect knowledge, zero transaction costs, freedom of entry and exit,

etc., which resulted in restricting the ability of the agents in the model to act upon price. In fact, they can not and do not act upon anything. They simply treat price as given. But, Kirzner asks, if everyone is a price taker, then who changes the price to adjust the market? Standard theory relies upon the fictitious extra-economic entity called the "Walrasian auctioneer." In fact, if any agent within the standard model possessed the ability to change price, that would represent the existence on monopoly power and would suggest that government regulation was necessary to guard against economic inefficiency. This is the logic behind the structure-conduct-performance paradigm that has traditionally dominated anti-trust analysis (c.f., Dom Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure*, John Wiley and Sons, 1982).

Kirzner refuses to accept a theory of price determination that cannot explain the emergence of price as the outcome of the interaction of the human actors under investigation. This leads him to propose a reorientation of economics to focus attention upon the role of entrepreneurship within economic processes. Entrepreneurship, to Kirzner, is an aspect of all action, and not the special ability of a businessman or risk merchant. We are all entrepreneurs in our capacity as purposeful human actors. The essence of entrepreneurship is alertness to previously unseen opportunities.

The entrepreneurial market process is characterized by the profit-seeking activities of various and diverse individuals. Notice that Kirzner's emphasis is on profit-seeking and not profit-maximizing activity. The exercise of maximization requires known and given functions with which to maximize. The contrast between Robbins' emphasis on maximizing behavior and Mises' emphasis on human action is most fully elaborated here by Kirzner. Utility and production functions do not exist "out there," independently of valuing agents. These functions, if they are said to exist at all, are only revealed and discovered within the competitive rivalry of market interaction. It is in this entrepreneurial quest for profits that the knowledge necessary for plan coordination among market participants is generated.

This is where Kirzner, and the Austrian approach in general, offer a fundamental critique of standard welfare economics. Standard welfare economics, which serves as the economic rationale for government intervention, concerns itself with finding the best use of available resources under the assumption that all the relevant information concerning preferences and production techniques is known and given. The economic problem, under such circumstances, is a simple mathematical problem of employing the right means to obtain the appropriate end (c.f. James Buchanan, *What Should Economists Do?*, Liberty Press, 1979, pp. 17-37). Policy espousal, therefore, is based on how well the market can handle the static economic problem confronting society. To the extent that the market does not approximate the ideal, it is said to fail, and government is called upon to push the economy closer to the solution of its economic problem.

Austrians argue that this, emphatically, is not the economic problem society

confronts. The problem is rather one of "the utilization of knowledge which is not given to anyone in its totality" (c.f., F.A. Hayek, "The Use of Knowledge in Society," *Individualism and Economic Order*, University of Chicago Press, 1980[1948], p. 78). Thus while mainstream economics models the competitive market as a computer, Austrians, and Kirzner, in particular, view the market "as a social instrument for mobilizing all the bits of knowledge scattered throughout the economy" (Kirzner, *Competition*, op. cit., p. 214).

The entrepreneurial market process allows actors to discover and utilize the knowledge necessary to achieve the economics coordination that standard analysis is helpless to analyze because of the restrictive assumption of perfect knowledge. "The world of market equilibrium," Kirzner states, "cannot be judged on its success in coordinating scattered dribbles of information; ignorance is simply assumed not to exist. For such a world it is only natural to expect welfare analysis to be confined to an appraisal of how closely it approximates the conditions for optimality." It is Kirzner's self-appointed task "to liberate the theory of price from the unrealistic confines of such an artificially restricted world." The welfare criterion with which Kirzner proposes to replace traditional optimality conditions is the ability of the system to coordinate economic activities. "[T]he success of a system," he suggests, "is to be measured by its capacity to coordinate the innumerable individual decisions, plans and actions that will be made independently in society during a given period of time" (ibid., p. 218).

SUBJECTIVISM, KNOWLEDGE, AND RADICAL SUBJECTIVISM

Kirzner and other Austrians emphasize the dispersion of knowledge in society, and how market activity serves to systematically bring about order. This follows directly from their adherence to the methodological tenets of praxeology. Kirzner, in fact, characterizes the Austrian methodological position as consisting of three major planks: (1) methodological individualism, (2) methodological subjectivism, and (3) emphasis on spontaneous order. This has led him to intellectually distance himself from other economists (namely members of the "Chicago School") who happen to share basic policy sentiments toward the free market (c.f., Kirzner, "Divergent Approaches in Libertarian Economic Thought," *Intercollegiate Review*, February 1967, pp. 101-108).

While there is a great unity in Kirzner's life work, there have been subtle and continuous refinements of his understanding of the market process. The most subtle, but perhaps most important refinement, of Kirzner's thought has been his consistent development of subjectivist insights into the nature of the market. Hayek has argued that "it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism." Moreover, Hayek adds in a footnote to the above-quoted passage that this development has "been carried out most consistently by Ludwig von Mises" (*The Counter-Revolution of Science*, Liberty Press, 1979[1952], p. 52, fn. 7). If Mises carried

out the subjectivist revolution more consistently than any other writer, then I think it is no exaggeration to more consistently than any other writer in the Austrian tradition. In this regard, it is most accurate to refer to Kirzner as the most devoted and consistent Misesian of the modern Austrian school. This makes him, I believe, not only the most important, but the best economist of the modern Austrian school.

In developing the subjectivist paradigm, Kirzner has benefited greatly from his interactions with Ludwig Lachmann, G.L.S. Shackle, James Buchanan, and Kenneth Boulding. In particular, the works of Lachmann and Shackle have appeared to be a constant source of inspiration for Kirzner. *Perception, Opportunity and Profit* (University of Chicago, 1979), for example, contains several essays where Kirzner develops Misesian themes by integrating, or coming to grips with, the insights of Lachmann and Shackle on subjectivism.

In his essay, "Knowing about Knowledge: A Subjectivist View of the Role of Information," Kirzner criticizes the economics of information literature as developed by George Stigler, and other economists, many of whom are associated with the University of Chicago. Kirzner points out that for the economist, who is concerned with the valuation of goods and services by diverse individuals, "what is important about the objects that surround us is not the objects themselves, but only the knowledge and beliefs about them that inform and shape human actions" (*ibid.*, p. 151). Consistent with his emphasis on Misesian action, Kirzner sees the importance of methodological subjectivism in the emphasis this approach necessarily places upon the primacy of human consciousness in social action.

This presents an apparent paradox for the radical subjectivist; a paradox which the intersubjectivity of market interaction overcomes. "Subjectivism suggests that things about which men are completely ignorant are things that, in the sense relevant to economic theory, simply do not exist. Yet, in the case of knowledge itself, consistent pursuit of the subjectivist approach turns to direct attention precisely to the existence of opportunities for the acquisitions of knowledge about which no one knows" (*ibid.*, p. 138). The institutions of the market, i.e., money prices, profits and losses, etc., serve as guideposts to individual decision making; Mises referred to these market institutions as indispensable "aids to the human mind." The market system as a whole serves to coordinate the separate and diverse plans of various individuals.

This cooperation in anonymity is the result of the market's ability to discover, utilize, and convey the local bits of knowledge scattered throughout the economic system. As Kirzner states:

I contend that the market performs a crucial function in discovering knowledge nobody knows exists; that an understanding of the true character of the market process depends, indeed, on recognizing this crucial function;

and, finally, that contemporary economists' unawareness of these insights appears to be the result of otherwise laudable attempts to treat knowledge objectively-that is, consisting entirely of units of available information that are to be acquired only through calculated expenditure of resources (*ibid.*, p. 139, emphasis added).

Kirzner also deals with these issues in a brilliant essay which discusses critical differences between Mises and Hayek on the nature of the market process (c.f., "Hayek, Knowledge and the Market Process," *op. cit.*, pp. 13-33). In this essay, Kirzner demonstrates how the learning process of market interaction follows directly from the purposive actions of individuals. "The market process," Kirzner argues, "emerges as the necessary implication of the circumstances that people act, and that in their action they err, discover their errors, and tend to revise their actions in a direction likely to be less erroneous than before" (*ibid.*, p. 30).

This view of the market process as the outcome of the purposeful actions of individuals is, I believe, the crux of the genius of both Mises and Kirzner. The radical subjectivist, who recognizes that economic activist can only be meaningfully discussed as the interaction of human minds, does not need to be trapped in solipsism. The institutions of the market serve as the coordinator of these meaningful utterances of individual minds. Man's propensity to discover opportunities within social interaction provides the basis from which a social order results that is not any one's design, yet, nevertheless, is the result of individual purposive acts.

ECONOMIC PROCESSES AND ECONOMIC POLICY

Kirzner's elaboration of Misesian insights into the market process possess radical implications for economic policy. Kirzner, as economist qua economist, has attempted to stay clear of ethical arguments to justify private property. He is perhaps the strictest defender of Mises' notion of "value freedom" in economic analysis has nothing to say about the proper social relations of man. One should, for example, examine his economic discussion of Robert Nozick's entitlement theory in *Perception, Opportunity and Profit* (c.f., "Entrepreneurship, Entitlement and Economic Justice," pp. 200-224).

The book which discusses Kirzner's views on economic policy at most length is *Discovery and the Capitalist Process* (University of Chicago Press, 1985). In particular, the essay "The Perils of Regulation" presents the economic argument against government interference with the market process more forcefully than any other modern treatment, save Don Lavoie's *National Economic Planning: What is Left?* (Ballinger Press, 1985). Both Lavoie and Kirzner, however, are essentially making the same argument, and it consists of applying the Mises/Hayek criticism of socialism to all attempts to control the market process by government decree.

The main point of their argument is simply that attempts to rationally control the economic system are necessarily irrational because the knowledge necessary for economic coordination is not known to any one mind or group of minds. The competitive market process systematically allows for the discovery and utilization of the knowledge required for economic coordination. The rivalrous competition of market participants generates and reveals the appropriate economic knowledge. Interference with that process, on the other hand, results in the disappointment of the plans and purposes of the interveners themselves. This disappointment of the interveners plans does not result in an abandonment of interventionist policies, but, instead, leads to continued attempts by statisticians at economic control. Minimum wage laws or rent controls, for example, produce results which harm the very people the laws were supposed to help, yet, these laws continue to be passed year after year. I am, of course, assuming here the best of motives on through the history of South African labor law, or even the history of labor law in the United States, calls that assumption into question (c.f., W.H. Hutt, *The Economics of the Colour Bar*, Institute for Economic Affairs, 1964; Walter Williams, *The State Against Blacks*, McGraw-Hill, 1982). Nevertheless, the point stands; assuming that the government official was seeking to improve economic conditions in the name of the public interest, economic analysis demonstrates that interfering with the competitive market process produces results that are contrary to the betterment of the public. This is not limited to the recognition of the problems with wage and price controls that is part of every economist's training, but applies to all areas of government interference with the market process. From taxation to Keynesian fine-tuning, the economic result is the same: interventionism leads to destruction of economic well-being and loss of human freedom.

CONCLUSION

Israel Kirzner is a scholarly champion of the Austrian school. His careful and open mind has produced research which has once again made Austrian economics a viable paradigm within the discipline of economics. Besides his direct scholarly writings, which I have discussed in this short essay, he has edited two of the more important volumes on advancements within the Austrian tradition: *Method, Process and Austrian Economic: Essays in Honor of Ludwig von Mises* (Lexington Books, 1982) and *Subjectivism, Intelligibility and Economic Understanding: Essays in Honor of Ludwig Lachmann* (New York University Press, 1986). Individuals wishing to explore contemporary developments and the farther reaches of the Austrian paradigm would do well to consult these volumes.

Kirzner, through his writing and teaching, continually improves both his own and our understanding of economic processes. He provides his students with a better understanding of the market system and why freedom of exchange and production are essential components of economic prosperity. Individuals who heed his teachings will better be able to understand and defend the importance of their economic liberties. In this regard, Professor Kirzner has not only advanced economic theory, he has, in a very real

and powerful sense, advanced the scholarly case for political and economic freedom.

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