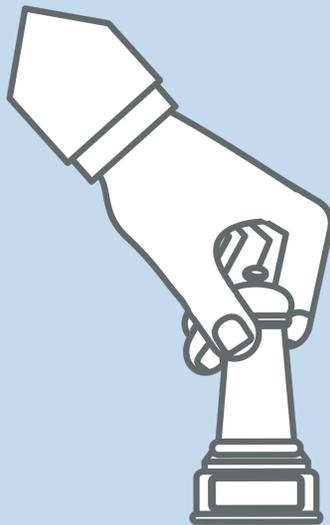


Winter • 2019

Mises | Rothbard | Hoppe

AUSTRO LIBERTARIAN



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AUSTRO LIBERTARIAN

A Magazine for Liberty

AUSTRO LIBERTARIAN

This phrase has appeared often in the literature produced especially by those scholars and theorists associated with the indispensable Mises Institute. It is an intentional attempt to express commitment to two distinct bodies of thought — Austrian Economics and Anarcho-Capitalist political theory — both of which conclude that individual liberty based on private property is the cornerstone for all civilization.

MISSION

The goal of this publication is to advance the Austro-Libertarian tradition of economic and political thought, especially as it has been articulated by Ludwig von Mises, Murray Rothbard, and Hans-Hermann Hoppe.

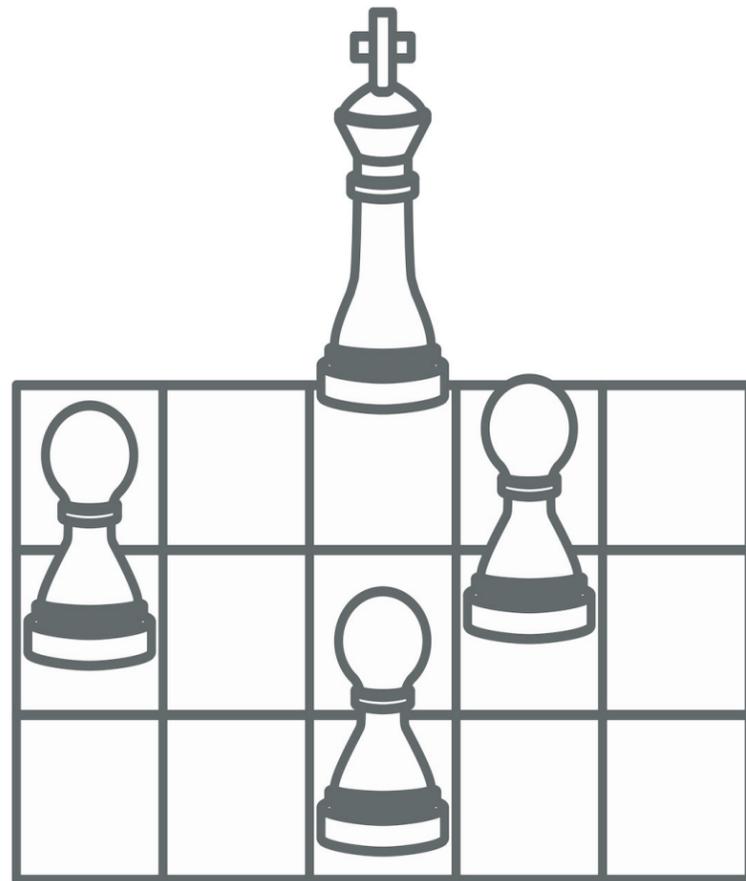
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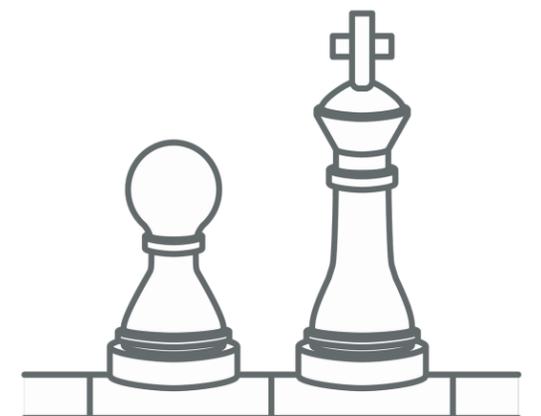
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EDITOR'S LETTER

We sit at the precipice of the failure of state interventionism. Contrary to the rhetorical flare with which the two factions of the mainstream hurl at each other, we live neither in a free market world, nor a socialist one. Ours is the age of interventionism— not only economically, but socially and militarily as well.

But what comes next? If interventionist statism, and the culture that flows from it, are on a trajectory of disaster then are the “ideas” —such as they are— of Alexandria Ocasio-Cortez to replace old? Is true socialism the inevitable future that will be born at the death of capitalism? While Marx held that socialism was the true and determined successor, we Misesians understand that history is a product of human action. And humans act under the influence of the ideas they hold.

Thus, our battle is over ideas and it is not yet lost, but it has still to be won. We operate under what Rothbard refers to as the “eternal struggle between power and market.”

The premier socialist publication Jacobin recently indicated in their end of 2018 email that “it’s the best time to be a socialist in the United States since the 1970s.” Why is this? Because interventionism is failing. As Mises once observed, socialists— true socialists, not left interventionists a la Elizabeth Warren— also oppose interventionism; they know it cannot “work.” And thus, at the precipice, the socialist sees opportunity.

The Austro-Libertarian edifice is the true antidote to both the devastation of interventionism and the terrors of socialism. We recognize that the state has failed to “manage capitalism,” to “plan for freedom.” And yet, we are resolute in our position that only liberty grounded in private property rights can bring us forward to more prosperous and civilized ages.

We envision a quarterly printed publication that covers a broad range of subjects as can be seen in the Table of Contents— economic theory, political and legal theory, social frameworks, history, and so much more. Our economics, which we hold as a value-free science, are Austrian; or more specifically, Mengerian, Böhm-Bawerkian, and Misesian. Our political theory is rights-based; Libertarian in the Rothbardian, Hoppean, anarcho-capitalist strain. We are adherents to a system of thought, rigorous and precise.

This magazine exists, in its own small and audacious way, to contribute to the Cause. Capitalism has bestowed upon the west a certain standard of living that would regress magnificently under socialism and it is up to us to fight for the return of freedom. We wage our battle in the realm of ideas, working to win the hearts and minds of those who seek to understand the profound contributions of liberty.

C. JAY ENGEL

*Chief Editor and Founder of
Austro Libertarian Magazine*

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In the early 1880s, Menger's first followers, Böhm-Bawerk and Friedrich von Wieser, began to publish, and the growing stream of publications by others who had been influenced by Menger in Austria and elsewhere increased to a flood. By the end of the decade, an identifiable "Austrian School" had begun to achieve worldwide renown. Even at this early stage, the Austrian School was deeply divided on a crucial issue of basic theory. On the one hand, Böhm-Bawerk fully absorbed Menger's causal-realistic approach to price theory. Wieser, on the other hand, seized narrowly on Menger's "subjectivism" as embodied in the principle of marginal utility and completely ignored the structure of [Menger's] reality-based price theory.

Joseph Salerno

TWO AUSTRIAN SCHOOLS

The Mengerians and the Walrasians

C.Jay Engel

It is well known in Austro-Libertarian circles that Carl Menger was the founder of Austrian economics as a distinct approach to economic doctrine. Mises once wrote that "until the end of the [eighteen] seventies there was no 'Austrian School.' There was only Carl Menger."

From this fact some simply assume that the path from Menger to Rothbard was straightforward and without blemish, as one single lineage from teacher to pupil. But this is not so. The Austrian School has had its own schisms, its own battles for intellectual purity, and its own renegade economists who deviated, in one way or another, from the Mengerian tradition.

Carl Menger, of course, was Austrian; and published in 1871 the book that would ignite the whole of the Austrian tradition by attracting fellow Austrians Eugen von Böhm-Bawerk and Friedrich von Wieser into study of the Mengerian method. The book was *Grundsätze der Volkswirtschaftslehre* (translated into English: *The Principles of Economics*) and it was the key that drove Mises himself into lifelong study of economic problems.

Among Menger's accomplishments were the following:

1. First, he independently developed the theory of economic subjectivism; the idea that value was determined not by the nature of the economic good itself, but by the mind of the individual human being who imputes value, based on how well he determines it will fulfill his needs, into the good. Value then is imputed, and subjective to the mind of the individual human actor.

2. Second, and this is important for the present tale of two traditions within the Austrian School, Menger established what eventually came to be called the "causal-realist" tradition of economics. There are two parts to this. On one hand, Menger defended the idea that there was a "cause-and-effect" aspect to the development of market prices; that is, the prices of goods on the market were a response to (caused by) the complex desires and actions of individual human agents. On the other hand, in order to discover economic laws relating to price theory, Menger taught that the economist must emphasize the realism of his assumptions. That is, in reflecting on price theory, we mustn't create models and assumptions that don't actually exist in the minds of human actors on the market.

Both of these must be contrasted with the French Neo-Classical economist Leon Walras. In the history of economic thought, Walras was one of the three independent discoverers of the concept of subjective value theory (Carl Menger and William Jevons being the others). Walras, however, did not at all subscribe to Menger's causal-realist approach to economics. Instead, Walras was a key developer of what is known as a "General Equilibrium" framework. He approached price theory through a nonexistent construct of a mechanistic market that was not subject to the changing desires and values of individual actors— it was an entity in and of itself. It was by analyzing this economy in perpetual equilibrium that the economist could discover truths about the nature of prices. In sum, he ignored Menger's cause-and-effect approach and at the same time dismissed the need for realistic components (after all, this "equilibrium" could not actually be found in the economy).

While price theory touches so many aspects of economic theory in general, the Walrasian framework was explicitly non-causal-realist. While Menger and Walras were both co-discoverers (along with Jevons) of subjective value, they represent two entirely different traditions of economic thought.

Now then, Menger's Principles of Economics and other efforts caught the attention of two individuals, brothers-in-law, who would essentially be Menger's proteges and representatives of what might be referred to as the "second generation of Austrian School economists." These two, Eugen von Bohm-Bawerk and Friedrich von Wieser, represented the first schism in the Austrian School tradition.

Bohm-Bawerk latched on closely to Menger's causal-realist approach while Wieser merely adopted Menger's subjectivist position. Instead, Wieser completely dismissed the Mengerian price theory, preferring instead to focus on an anti-realist construct which was closer to the Walrasian equilibrium model. Bohm-Bawerk, however, not only embraced Menger's causal-realist principles, he also sought to expand and develop it further. Bohm-Bawerk eventually made tremendous (though not entirely perfect) contributions to capital theory, not only in a positive construction of an Austrian capital theory, but also in a negative attack against all other major capital theories of competing schools of economic thought.

The problem with the uniform phrase "The Austrian School," then, begins immediately. The German Historicist anti-economists (anti-economists because they rejected the very possibility of economic laws) in the 1880s dismissed Menger and his followers as the "Austrian School of Economics;" they were the first to designate the Mengerians with an official title. One ramification of this was that it glossed over the diversity within the price theory of the Austrians themselves. The Austrians were actually made up of Mengerians and neo-Walrasians, that latter, of course, having more in common with the neo-classicals than the Mengerians in terms of price theory.

Bohm-Bawerk and Wieser, naturally, passed on their own price theories to their students, Bohm-Bawerk as a Mengerian and Wieser a Walrasian. Their students represent the third generation of Austrian Economics.

Wieser's most important student, who was also well-read in, and heavily influenced by, the Walrasian framework, was Joseph Schumpeter. Schumpeter's role in the advancement of Walrasian economics is often under-appreciated, but it is nevertheless key because later Austrians would latch on to Schumpeter's commitment to the General Equilibrium approach. Fascinatingly, for all Bohm-Bawerk's heavy criticism toward Schumpeter's Walrasian price theory, the former saw the latter as the most brilliant and promising of third generation of Austrian Theorists. As Schumpeter was busy impressing the academicians at the University of Vienna, Menger had since retired and Bohm-Bawerk had take a position elsewhere. Unfortunately for the Mengerian tradition, this meant that, at least for now, the Walrasian General Equilibrium approach was on the rise and Menger's causal-realism was left by the wayside.

The fourth generation at the University of Vienna, then, would be almost entirely made up of proponents of Schumpeter and Wieser's Walrasian approach. At this point, in the words of Robert Allen, Menger was "more a myth than a reality particularly since his book had become a great rarity which was practically unobtainable as the copies had even disappeared from the libraries." Mengerianism was on life support.

At this time, the issue of price theory was all the rage in the world of Austrian Economics. Thus the success of price theorists such as Schumpeter. But under the radar was the brilliant Viennese student of Bohm-Bawerk, Ludwig von Mises. As the heavyweights in the Austrian School focused on the price theory debate, the young Mises wrote his timeless Theory of Money and Credit. That is, Mises' focus was on monetary matters at that time and therefore he was not seen, yet, as a vital defender of the Mengerian tradition.

It was only later (late 1920s) that Mises would come back around to address the issues of pure theory and economic methodology, the first being Epistemological Problems of Economics. For the first time since the rise of Schumpeter and the quiet exit of Menger, did the causal-realist approach have a worthy voice. While this book caused some attention to the old Mengerian framework, it wasn't until 1940 and the publication of the German edition of what would eventually be Human Action that it was realized that Mises had in his mind a holistic system of economics that was built on causal-realism. Mengerianism was back!— if only in writing, not yet in popularity.

Meanwhile, across the Atlantic, there were proponents of Bohm-Bawerk's own causal-realism in the first generation of American "Austrians," most important among them Frank Fetter. Fetter is important because he corrected key mistakes in Bohm-Bawerk's theory of interest— helping to construct, along Mengerian lines, what is now known as the "pure time-preference" theory of interest, which was later adopted by Mises, Rothbard, Hoppe, Salerno, and Herbener.

As World War II caused the spread of the German government, academic, and military influence into Austria, the Austrian economists, bitter opponents of German central planning and totalitarianism, fled into the west. Among these was the most popular of the Austrians, FA Hayek. Hayek viewed general equilibrium as the centerpiece of his economic theory. While he was no doubt influenced in many ways by the teachings of Mises, in the end, Hayek never broke out of the shell of his Walrasian training. In fact, in his essay Coping with Ignorance, Hayek clearly points to two traditions within the Austrian School and admits being an adherent of the Wieserian, rather than the Bohm-Bawerkian/Mengerian, tradition.

As the Austrian School began its western migration in the face of an invading German presence which caused the the sad fall of the Austrian monarchy and way of life, Hayek brought his "Walrasian contagion" with him to the London School of Economics. Walras and his General Equilibrium approach then, had made their way into the English speaking world and spread like wildfire, eventually reaching the Bohm-Bawerkians hiding away in America. Fetter and his causal-realist allies were replaced by proponents of Wieser and the influential Schumpeter.

It was at this point that Mises' massive economic treatise was published in German— the timing was crucial. Mengerian causal-realism was barely a memory. While it was an important moment for the Mengarian tradition that the book was published, it got exactly nowhere. After all, Mises, an Austrian traditionalists stubbornly refused to leave his Fatherland until the very end. But publishing his book there in Austria meant that he was immediately overrun by the Nazis and the book barely saw the light of day. Mises was devastated and sought refuge in New York, helped along by Austrian colleagues who had fled earlier.

It is a testament to Mises' heartfelt dedication to the truth and sound economics that, rather than give up, he once again wrote an economic treatise, this time more expansive and updated. The book, Human Action, would reignite Austrian economics and Mengerianism and lead to the rise of the Misesians, led by the ever-youthful and energetic genius Murray Rothbard.

It is important to note, however, that without Rothbard, Human Action and the return of causal-realism wouldn't have been as widespread as it eventually was. After all, Mises was not associated with any specific academic institution and therefore had almost no support in the academic world. Compare this to the influence and prestige of FA Hayek at London School of Economics, who would later receive a Nobel Prize in economics. But more importantly than this, Mises had written a world class and exceptionally in depth treatise on a subject that was hardly understood by the general audience, educated as they were by the Keynesian framework that by this time was considered economic Orthodoxy. In short, few understood the full weight of the contribution offered by Mises.

What the Misesian revolution needed was a revolutionary; a torch bearer who would bring the insights and contributions of Human Action to the general audience. It needed an interpreter, a fiery disciple who would at the same time uphold its weight but also communicate it to those ready and willing to listen.

This disciple came in the form of Murray Rothbard, whose own Man, Economy, State, which was originally meant as a summary of Human Action, wound up being its own original contribution to the Austrian edifice. With striking, even legendary, energy and devotion to the cause of liberty, Rothbard brought forth the Misesian system into the modern world and made it popular (to the extent that these things can be popular). By the mid-seventies, there was a collection of Rothbardian-Misesians that held a conference, the first of its kind in America, in South Royalton, a tiny town in Vermont. It was here that the modern Austrian movement found its beginnings.

Of course, the modern movement had its own splits, many of the key areas of difference being reminiscent of the Mengerian/Walrasian schism of old: the endorsement or rejection of causal-realism. At first, it was between Rothbard and Ludwig Lachmann, with the latter making the Old mistake of relying on, consciously and purposefully, unrealistic assumptions about economic theory. Once again, there was a camp within the greater Austrian tent that rejected Menger's causal-realism.

The key group that helped to fund the South Royalton conference, Institute for Humane Studies, began to de-emphasize the work and thought of Mises, much to the disapproval and objection of Rothbard. Instead, IHS worked with the recently formed Cato Institute to promote the Lachmannite theories. Thus, the funding for the Misesian/Rothbardian Austrian school began to dry up. For more on the political battle between Rothbard and Cato, read my article here.

In the post-Rothbard age, there are still two schools of thought: the followers of the Mengerian, causal-realist, Misesian tradition, and the proponents of the non-causal-realist, Hayekian tradition. The Misesians include folks like Hans Hoppe, Joe Salerno, Huerta de Soto, Jeff Herbener, and are mostly centered around the Ludwig von Mises Institute in Auburn, Alabama. The modern Hayekians (some of whom, though not all, try to differentiate themselves from the Misesians by dropping the Austrian label and instead calling themselves members of the Virginia School of Political Economy), include economists such as Peter Boettke, Lawrence White, George Selgin, Steve Horowitz and are often centered around Cato Institute and the George Mason University Economics Department (Mercatus Center).

A CONVERSATION WITH PETER KLEIN

Professor Peter Klein on entrepreneurship, the insights of the Misesian tradition, and the role of profit seeking in a world of uncertainty.

Peter Klein is the Carl Menger Research Fellow at the Mises Institute and Professor of Entrepreneurship at Baylor University. He is an Adjunct Professor of Strategy and Management at the Norwegian School of Economics. He earned his PhD in economics at the University of CA in Berkeley and is a former Associate Editor of The Collected Works of F.A. Hayek.

This interview is a remarkable way to kick-off our featured conversation series. While this was previously transcribed from a podcast that was done in 2017, it has not yet, and perhaps won't for some time, attained the audience it deserves. Dr. Klein is a delight to talk to, and his insights are for the ages.

C. JAY ENGEL: Before we get too deep into the substance of questions related to entrepreneurship theory, give me an overview of how you became interested in entrepreneurship. I read recently a working paper that you had put up, which was a collection of reflections on your contributions to entrepreneurship theory. You talk a little bit about your own history and it is interesting that you actually came to be aware of the Austrian School before you even began your undergraduate studies. So how did you become interested in entrepreneurship theory specifically?

PETER KLEIN: That's a great question. People ask me sometimes that type of question because I don't have the same background as a lot of researchers in the entrepreneurship field. Entrepreneurship is an applied topic; it's a business phenomenon. A lot of people who study entrepreneurship are themselves former entrepreneurs who are maybe looking for some theory or framework to understand better the kind of experiences that they've had. I teach in an entrepreneurship program, and we use a lot of experiential learning with our students and with companies and entrepreneurs we consult with and so forth.

But I came at it from the other perspective. I was already interested in economics and how an economy works and what makes an economy grow. From my readings in the Austrian literature, I realized that the entrepreneur was obviously a pretty important agent. Mises has this famous line where he describes the entrepreneur as the driving force of the market economy. All of the other economic theories that I had been exposed to in school—the sort of mainstream, mathematical microeconomics and Keynesian macroeconomics and so forth—they never even mentioned the entrepreneur once. If you look at the leading economics textbooks at the undergraduate level, most of them don't even have the word entrepreneur in the index. It's not just that they don't have a detailed discussion of the entrepreneur, they don't even have the word.

So I thought, there has to be some economists out there who are actually interested in entrepreneurship and who think the entrepreneur plays a vital role. And so, of course, historically that has been the Austrian School. The Austrians have been the only school of economics left that takes entrepreneurship seriously. I was trying to figure out how entrepreneurship was the foundation of markets and growth and prosperity even though I didn't start out with a practical interest in the “doing” of entrepreneurship.

CJE: Colloquially, we think of entrepreneurship as a self-employed person or someone that engages in non-hourly wage work or perhaps a person who “strikes out on their own.” But when you talk about entrepreneurial theory, especially within the Austrian tradition, it's actually a role that's being played; a logically necessary component of the market process. Can you comment a little bit on the definition of entrepreneurship as we are going to employ it?

PK: Yes. The way a lot of people in everyday discourse or in the business press use the term entrepreneurship is in the first sense that you mentioned—the entrepreneur is a self-employed person or who doesn't work for someone else or who creates a new venture. So in that sense Steven Jobs was an entrepreneur in the early 70's or early 80's but at some point he flipped and became a CEO executive; maybe when Apple reached a certain size.

But what I am interested in is not how we classify individuals as entrepreneurs or not. But rather, as you said, understanding the role or the function that entrepreneurship plays in an economy or in a society. If you look at most of the classic contributions in the entrepreneurship literature in economics, both inside the Austrian School and outside the Austrian School from people like Joseph Schumpeter or Frank Knight; they really weren't talking about all business owners or self-employed people. When Mises said the entrepreneur was the driving force of the market, he meant that it is the entrepreneurial role or function that moves the market forward.

Now, different scholars have defined that function in slightly different ways. Schumpeter famously identified that the entrepreneurial function as that of introducing novelty or innovation into an economic system. So whatever person or agent it is in a particular case, there's this force that sort of shakes up the old system, challenges the old ways of doing things, and comes up with new practices and new products and services. That is the nature of the entrepreneurial function (according to Schumpeter). Now whether that takes place in a small or large business, whether it is done by an individual or not, that was a secondary consideration for Schumpeter; the key was that we need somebody introduce something new into the system and we'll call that entrepreneurship.

I've worked a lot with the sense of entrepreneurship developed by Frank Knight, an American economist who in some ways was the hostile to the Austrian School on some issues, but in his treatment of uncertainty and entrepreneurship I think he is close to Mises. Knight said that the function of the entrepreneur is to bear uncertainty. Somebody has to be responsible for making decision and deciding how assets will be used and so forth under conditions of deep uncertainty. The entrepreneurial role is to exercise that kind of control over decision making and resource allocation under conditions of uncertainty.

And by the way, even based on thinking about those two ways of defining entrepreneurship, it's easy to see for those who have been exposed to mainstream economics.. what's missing from mainstream economics is anything about innovation and novelty, and anything about deep uncertainty. If you can model the entire economic system with a few simple equations, you don't need Schumpeter or Knight, there's no role for innovation or certainty bearing in that model. So it's no surprise that most mainstream economists completely forgot that the entrepreneur even existed.

CJE: Because the Austrians place such a key role on the entrepreneur in regards to the dynamic nature of the market economy, it really brings to light the profound implications of the fact that there is an uncertainty bearer in the economy; whereas if you just look at the general neoclassical tradition and their equilibrium focused models, there is no role of the entrepreneur and therefore they miss certain aspects or insights that the Austrians can bring to the table.

Editor's note: the following answer was a little bit difficult to transcribe in a way that made sense, given the oral nature of its original expression. Brackets are where I summarize the statement.

PK: I think you're exactly right. If you read the conventional economic textbook... most mainstream economists are struggling [to address the rising interest in entrepreneurship in the colloquial sense.] They don't know what to say because [their models don't account for the entrepreneur.] If you look at Mises in particular, in his treatise *Human Action*, the word entrepreneur appears in that text hundreds of times. For Mises, it's not like trumpets blare every time he brings up the entrepreneur. He just throws it in there as a very ordinary and mundane thing: "well of course anytime you're talking about the market you're talking about the entrepreneurship." [...] Mises would find it shocking that you could discuss anything in economics without the entrepreneur. And that is something that is really unique about the Austrian tradition: the entrepreneur is not something extra that you have to add on top of your theory of the market. The entrepreneur is deeply imbedded in the market and the entrepreneur is part of the theory of the market, the theory of the firm, the theory of production, the theory of exchange and so forth. So that's one of the refreshing things about reading these Austrian texts, even though some of them are 100+ years old.

CJE: Mises drew this distinction in his *Bureaucracy* book on the difference between what he called profit management and bureaucratic management. How does the theory of the entrepreneur fit into that equation? Particularly, does the role of the entrepreneurship relate in any way to the socialist calculation debate?

PK: That's a great question. If we define the entrepreneurial role as Mises does, at least in my interpretation of Mises, Mises is very much in this same tradition as Frank Knight in understanding the entrepreneur as this actor that has to make these ultimate decisions about what is going to be done and who is going to do it and so forth. Now, that isn't to deny that in most business settings, in the household, or whatever, the entrepreneur can delegate a lot. The owner of a company doesn't have to be on the shop room floor doing every tasks, but the owner has the ultimate responsibility of deciding what tasks should be performed, of hiring people to perform those tasks, and firing them when they don't perform the tasks, expanding the firm, shrinking the firm, and forth. So, really the ultimate entrepreneurs in a well functioning, advance, capitalist society are not the plant managers, the factory supervisors, or even the senior executives at companies.

The real entrepreneurs are the owner, shareholders, private equity investors, partners, and so forth. It's really the owners of firms who make these ultimate decisions. And as Mises pointed out, in an advanced market economy, the entrepreneurial role is filtered through the financial markets. And so you need to have a well functioning stock market, you

need to have private equity and bond markets and so forth for the entrepreneurial role to be performed to the fullest extent.

There's a story that I've repeated in some of my talks before that I heard from Murray Rothbard. Rothbard says that when he was in Mises' seminar at NYU back in the 1950s, or 1960s, Mises was asked "we've been studying socialist societies/economies, and we've been studying capitalist economies, but in the real world, isn't everything kind of a mixture. Western style economies are most capitalist but have a lot of government intervention and even nominally socialist societies have a lot of de facto capitalism because the central government can't control everything. So is there really a way to divide and distinguish between a true socialist economy and a capitalist economy? Rothbard says everyone expected Mises to say when there's a mixture there's no really line to make the distinction, but Mises said: "yes! The defining characteristic of a capitalist economy is that it has a stock market!" The stock market is the market in which ownership claims for productive assets are exchanged. If you don't have a market for ownership claims, then you don't have owners who can buy and sell their ownership, so then you don't have real private ownership of the means of production.

Why that's important is: first, even those who say they are defenders of the free market or capitalism often say that, well the stock market is just a mess. It's casino gambling. It's a way for some people to make money without really doing anything. Really, it's the production in the factory that counts! And Mises would say "no." Production only takes place in a factory because some owners have decided to set up a factory. What goes on in the factory depends on how these titles are created and exchanged and transferred and so forth.

Second, and more to your question about bureaucratic management. It's very interesting talking about the socialist calculation debate—Mises had initially said that efficient resource allocation under socialism is impossible because there's no private ownership. But some of Mises' critics had said well, but in a modern capitalist economy, the people who are actually producing stuff are workers and managers; the capitalists are just rich guys sitting in their smoking club somewhere; why couldn't you just set up a socialist economy and have the taxpayers be the ultimate owners so we can get rid of the fat cats and replace them with society. We'll still have workers and managers and can't they just work and manage the same way they did under capitalism. We'd get the same amount and quality of goods and services. We'd just get rid of absentee owners and replace them with the state, acting as an agent of the taxpayers; that'd be just as good or even better!

Mises responded with this great line where he says these socialist theorists; they see the economy from a perspective of a mid-level manager! They think the most important thing is what the managers and clerks and shop supervisors are doing. That is not what a capitalist economy is about at all. Those people, as important as they are, but they only have a role because the capitalist created it for them. Mises says if you don't have private actors who own the means of production and who support the means of production by their buying and selling of stock, who direct the flow of capital from one activity to another, then you just have garbage; you just have a mess, you cannot possibly have an efficient market system.

CJE: Let's talk for a moment about what the entrepreneur actually does. I think a good way to do this might be to drill down farther into intra-Austrian debates. You yourself have contributed an important distinction with the Austrian tradition between the Kirznerian entrepreneurial tradition and what we might call the Rothbardian interpretation of Mises. You've stated quite clearly over the years that you take the side of Rothbard on this. When we're trying to determine the role of the entrepreneur, what he actually does and contributes to the market economy, Austrians have come up with two distinct answers to this. Can you clarify the differences between Kirzner and Rothbard?

PK: Israel Kirzner of course is one of the most prominent members of the Austrian School and a student of Mises at NYU and wrote his dissertation under Mises and produced some very important books early in his career on capital theory, on the history of economic thought; but his best known book is his 1973 book *Competition and Entrepreneurship*. It is really a fantastic book; it is short and very readable and concise statement of a particular notion of competition and the market system that is inspired by Mises and the rest of the Austrian tradition, but in some ways is unique to Kirzner's own vision. Kirzner employed what I think is a very clever metaphor of discovery to explain what entrepreneurs do.

(Consider first the Equilibrium theory): I go through an exercise with my students where I say, imagine that you're walking down the street and you notice that someone has dropped a \$20 bill on the ground, so you bend down to pick it up. Well there's this old joke about mainstream equilibrium economists that in that situation, let's say there were two of them who stumbled on that bill. One would bend down to pick it up and the other would ask "what are you doing? In equilibrium all profitable opportunities have been exploited, so there can't be \$20 on the ground for if there were, someone would have picked it up already!" So they walk right on by the \$20 bill!

Kirzner says when firms earn economic profits, it's as if they discovered cash on the sidewalk. [...] The reason that people sometimes make money is because the world is not in this fully adjusted equilibrium state. It is possible sometimes, says Kirzner, to produce products that you can sell at revenues greater than their costs because not all profit opportunities are already exploited. So in the equilibrium neoclassical model of the market, there are no profits to be made because everything is fully adjusted. If you can sell iPads for \$500 each then people would have already competed for the use of those inputs and the price of those inputs would have been bid up to the level so there's nothing left over when you sell the product. So when a firm earns profits it can only be because that entrepreneur discovered an opportunity to produce something and sell it in excess of cost before other people. It's like money on the ground.

An even simpler example would be arbitrage. Kirzner points out that if everything is already equilibrated, you can't make any arbitrage profit. The act of the arbitrager is to drive those prices to be more equilibrated so eventually the act of pursuing this arbitrage profit makes the profit go away. So Kirzner argued that is a metaphor for entrepreneurship in general. What entrepreneurship is in Kirzner's interpretation is the discovery of or alertness to opportunities to earn profit before other people have also made those discoveries. Because once everyone knows about it,

the profit opportunity is gone. So people who are more alert, who are more aware of aware of market conditions, who have a better sense of what consumers are going to buy in the future, who are quicker to notice profit opportunities than others will be the ones who end up making money. And that is what Mises meant by the entrepreneur is the driving force.

Now, when Kirzner's book came out, there were several book reviews by prominent Austrians—Rothbard wrote one in the *Southern Economic Journal*, Henry Hazlitt wrote a review, Percy Greaves wrote a review, and a few other reviews by important Austrians of Kirzner's book. They all said that it was a really great book and it was great for the Austrian School. They thought it was great to see Kirzner thinking deeply about how the entrepreneur is in the market, but all three of these reviews pointed out that they had one little quibble with Kirzner: he seemed to separate the discovery function from the ownership function. So Kirzner describes the entrepreneur or the entrepreneurial role as fundamentally different from the capitalist and the capitalist role. Kirzner said the entrepreneur doesn't have to own anything (a firm, resources), he just sort of floats above the messy market, discovering these opportunities and realizing the gains from exploiting them. Even in that review, Rothbard pointed out (and elaborated on those later), that if you really think about it there's no way you can actually earn profits without having some assets at risk. You can't earn profits unless you can also potentially take losses. [So the arbitrager and the iPad creator may be wrong about their judgments about the future and lose money—CJE].

But in Kirzner's model, entrepreneurship is discovery so you can never lose; the worst that can happen is you fail to discover something that you could have discovered, but you can never actually earn a monetary loss because you don't invest anything, you just discover. The way I read Mises, and the way Rothbard reads Mises, Mises is not actually identifying entrepreneurship with discovery. Although Mises does say yes, in the real world successful entrepreneurs are those who have a quicker eye than the crowd—people who are just good at reading the market. People like Steven Jobs and Bill Gates and so forth—they are pretty alert to things that are going on in the market. But in Rothbard's interpretation of Mises, and in mine, the essence of the entrepreneurial function is not discovery, it is bearing uncertainty. And in order to bear uncertainty you have to own the resources that are being invested under uncertain conditions. When you invest them wisely you earn profit, when you invest them unwisely you earn a loss. That's sort of the difference between the Kirznerian view and the Rothbardian view.

CJE: When I think of Kirzner, I think that he presents this scenario where there's an entrepreneur who has discovered that there's some gadget that the consumers might have demand for; of course, he may not have the capital to actually produce it, he may have to go find a capitalist that can put up the money to produce and market these new gadget. That would be the Kirznerian distinction between the two roles. It seems that the Rothbardian answer to this framing is that, if you look at it from a logical standpoint, what is really happening is the capitalist is subsuming the role of the entrepreneur in that scenario and Kirzner's entrepreneur is actually going to make sure the gadget is produced so he becomes more of an employee of the capitalist/entrepreneur.

PK: I think that's right. We can all think of people who are very good at reading market conditions but have a very low tolerance for bearing uncertainty—consultants. In the kind of case you're describing, you can imagine a business owner, which I would call an entrepreneur, hiring a consultant who wants someone who is good at market research or who know about the market who can give advice about what to do and who can alert me anytime they see something or forecast something. That's fantastic, I may hire those people as consultants or employ them as advisors, they might be members of my team. But if what they are doing is trying to persuade me to invest my money in pursuit of what they think is an opportunity, then the one who is making the decision at the end of the day is the me! So, I'm really the one performing the entrepreneurial function of deciding how resources will be allocated under conditions of uncertainty. The person who discovers and then persuade someone else to act is really just preliminary to entrepreneurship but is really not entrepreneurship itself.

To be an entrepreneur actually means to put your money where your mouth is, to have some skin in the game, to direct some resources toward production. If we don't do that, we can do all the discovery we want, we can identify all the opportunities that we want, but that's just talk, just playing a game; it only becomes entrepreneurship when we have viable resources invested in pursuing this belief that we have.

CJE: In your opinion, do the differences between the Rothbardian interpretation and Kirzner's interpretation reflect in any way the distinctions that Joe Salerno has brought up over the years between the Mengerian causal-realist approach, and the Walrasian general equilibrium approach within the Austrian historical tradition?

PK: Yeah, I think it does. I think that the notion of the entrepreneur as a discoverer or an arbitrager fits much more nicely into what you said Salerno describes as the "verbal equilibrium tradition" within Austrian price theory. Which would include Walras, Hayek, and probably Kirzner. Of course, as Joe points out, that approach is thoroughly grounded in Carl Menger's pioneering insights, so that's a completely Austrian strand, but it's quite different from what Joe describes as the causal-realist strand. This [latter] strand goes from Menger to Bohm-Bawerk to Mises and to Rothbard; so this notion of the entrepreneur as an owner who is always using economic calculation to anticipate future profitability and is acting and making decisions about what to do based on these calculations, there's no role for discovery or alertness in that particular model. So I think this discussion we're having does relate to that broader issue of whether there are whether multiple strands within the Austrian traditions and of course, I agree with Salerno. I think there are different strands within the Austrian tradition and that is the sign of a healthy movement.

Just to summarize, my bottom line is that Mises' great treatise is called Human Action. So, to me entrepreneurship needs to fit within the action framework. Entrepreneurs have to act. The problem I have with the discovery metaphor is that, to me discovery is not action. Discovery is something very passive; you may or may not notice something, but the thing was already there for you to notice it. Somebody else had to create it for you to discover it, so to me, saying entrepreneurs are good at being alert to market conditions is like saying that "successful entrepreneurs have strong personalities" or successful entrepreneurs tend to be effective leaders" or "they tend to be good with people." Those things are all true, but those are not necessary conditions of performing the entrepreneurial function: to act as an entrepreneur you don't need to be charismatic or a great leader or have a great personality, and you don't need to be particularly alert. Although in reality, many successful entrepreneurs do have those personality traits.

CJE: I think that entrepreneurship theory is ripe for more contributions, just because it's a very unique aspect of the Austrian theory of the market economy. I think there's much more work to be done. And I've heard that from you and several others. Are there any particular areas of entrepreneur theory that you think Austrians can look into further and add to the literature?

PK: Yeah, I think that across the whole range of modern entrepreneurship literature, there is a huge role that Austrians can play. Austrian economics certainly has a lot to say about the intersection between entrepreneurship and finance. The role that angel investors and venture capitalists and equity investors and debt holders and so forth can play in shaping the creation of companies and the reconfiguration of companies and so forth. It's interesting that among economists today the Austrian School is regarded as a small, subset—the Austrian School is certainly not the dominant way of looking at the world within the economics profession. There are some career drawbacks to being associated with the Austrian tradition within the field of economics today.

But none of that is true and maybe even the opposite is true within the entrepreneurship field. So among academics and teachers and scholars, and so forth, who study entrepreneurship, they regard the Austrian School as one of the major contributors, as one of the most prominent theoretical bases of entrepreneurship research. So almost anything that one wants to study within the entrepreneurship and innovation area, whether it is startups and small businesses or innovation and firm growth, whether its the general analysis of the market that we've been talking about, if its the effect of regulation and the legal system and other kinds of institutions on entrepreneurship and innovation... the Austrian School and Austrian theories are front and center on all of those topics.

I would encourage anyone interested in the Austrian school and who want to do analysis or research or get a degree or write a book or whatever, applying Austrian economics, look at the entrepreneurship literature because there are lots and lots of places where we can do that and get a lot of traction with it.

CJE: Well, thank you for your time Peter. We swept though some very important discussions that could probably be topics of future conversation. I'll let you go on your way. Thank you again.

PK: Sounds great! Great talking to you.