

This was a special issue edited by Mario Rizzo,  
on the occasion of Professor Israel Kirzner's retirement.

# ASYMMETRIC INTERPRETATIONS

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Wisdom in economics: Fine knowledge of the unknowableness of the economy.

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## Knowledge and Incentives in *Ninotchka*

In the 1939 Hollywood film *Ninotchka* (which stars Greta Garbo), three Soviet officials travel to France carrying a box of czarist jewels to be sold off for Mother Russia. Once in Paris, Ironoff and Kopalski favor the luxurious hotel, but the scrupulous Bulinoff objects for the burden the expense would put on comrades. Ironoff explains that Lenin himself would have them take the fine hotel, to show the prestige of the Bolsheviks. "Okay then, who am I to contradict Lenin?"

They ask the hotel manager for a room with a vault large enough to hold the large box of jewels. The manager says that one suite has a vault that size, but it might give offense: The Royal Suite.

What would Moscow think?

The Russians confer:

"We just tell them that we had to do it on account of the safe. There was no other safe big enough."

"That's right, that's right!," they agree.

It dawns on Bulinoff: "But of course we could take out the jewels and distribute them in three or four boxes in the vault and take a small room. That's an idea, isn't it?"

"Yes that's an idea," Ironoff replies, "but who said we have to have an idea?"

"That's right, that's right!"

They beam to the manager: "Give us the Royal Suite!"

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From Kenneth Burke: "If decisions were a choice between alternatives, decisions would come easy. Decision is the selection and formulation of alternatives."<sup>1</sup>

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### Two Film Critics Discuss a Movie

The 1984 suspense film *Blood Simple* tells a story of a killer, a husband, a wife, and a beau who meet a tragic end. The husband hires the killer to kill his wife and her beau. The killer pretends to have carried out the job, is paid by the husband, but then kills him. The beau finds the body, concludes that the wife did it, and disposes of the body. The woman concludes that the beau killed her husband. They love each other, cooperate, and try to protect each other. But, overwhelmed with shock and anguish, when they converse, each interprets their conversation as though it is common knowledge that the other did the killing, to make their love viable. They greatly misinterpret one another's words. They do not figure out that neither of them did the killing, and their misguided actions lead the real killer to kill the beau. (Finally the woman then kills the killer in self-defense.)

The woman and the beau had shared goals: being together and staying out of trouble. But the team failed terribly. The knowledge and resources available to the team were not utilized wisely, from the team's own point of view. Their story is fraught with misinterpretation, error, and regret. Even from the *ex ante* position, the team did not achieve a point on its welfare frontier. Such is how one movie critic – a Kirznerian critic – might describe the events of the story.

Another critic – a "Neoclassical" (in a narrow sense of the term) – takes issue with the Kirznerian telling.

*Neoclassical critic:* As theorists, we ought to employ a framework that gives no place to "misinterpretation," "error," and "regret." The proper way to tell the story is that *each individual* did optimize. When the beau spoke he chose words that seemed best suited to the situation, and the woman responded and reacted in ways that, given her imperfect information, best suited the situation. The selected strategies of each turned out badly, but optimization does not mean that things always turn out happy. Each individual simply faced resource constraints and experienced bad luck.

*Kirznerian critic:* There is nothing against logic in excluding notions of error and regret. But such a telling does a poor job of relating the meaning and interest of the film. The problems that the characters encountered would, in your description, be expressed within an artificial framework of optimization – a framework that would seem alien indeed to the characters themselves, and to viewers who put themselves in the character's position. Your telling obscures the root of their problems: misinterpretation, misunderstanding. The moral of the story – that sometimes we fundamentally misinterpret our situation and misunderstand each other – is lost. By your telling, the message of the story would simply be that sometimes our luck is *really* bad.

<sup>1</sup> Burke-1932, p. 215.

*Neoclassical critic:* No, it's not just about bad luck. We movie reviewers have a way of talking about uncertainty and communication problems: information costs. The characters in the film made their search choices optimally and experienced bad luck. People think information and thinking are costless, but they're not! The film is really about the high costs of acquiring information. You Kirznerians should read the literature some time. It is filled with papers about asymmetric information, papers that study what it is that you're talking about, only in a rigorous way.

*Kirznerian critic:* The woman and the beau had similar information: both knew that the husband was dead or missing. And they wanted to help each other. The problem was that each interpreted the facts differently. It wasn't so much asymmetric information, as *asymmetric interpretation*. How many papers are there in the literature about asymmetric interpretation?

*Neoclassical critic:* Now look, what you Kirznerians say has a sort of layman's appeal, but remember: We're scientists. Do you offer a rigorous way of representing "interpretation," "understanding," and "error"?

*Kirznerian critic:* What do you mean by "rigorous"?

*Neoclassical critic:* Can you study it scientifically?

*Kirznerian critic:* What do you mean by "scientifically"?

*Neoclassical critic:* Can you define it and make it work in a formal model? Can you quantify "interpretation," measure it in the real world, and test your descriptions using statistical methods that scientists use?

*Kirznerian critic:* Well, not in the way you mean. But –

*Neoclassical critic:* You Kirznerians have to realize that once we stray from rigorous thinking, we put standards in jeopardy. We can't allow any sort of loose, nonrigorous thinking pass as science. Just think what would become of the good journals! We'd fight constantly over what work is good and what bad, with no objective way to decide.

*Kirznerian critic:* There is something to what you say. However –

*Neoclassical critic:* Look, it is darling the way you Kirznerians buck the mainstream and celebrate free markets – I'm for free markets, too – but we have a profession to run.

*Kirznerian critic:* But your way of speaking leaves out important things. And I notice that nobody reads your movie reviews.

*Neoclassical critic:* I beg your pardon! My movie reviews are very successful. They are on reading lists in graduate courses across the country.

*Kirznerian critic:* Well, I guess that is one kind of success.

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In the *Journal of Political Economy*, Benjamin Klein<sup>2</sup> reviewed *Competition and Entrepreneurship*:

"Because of its peculiar methodology and language, this book is unlikely to have a large impact on the profession. ... The book, on the other hand, is likely to

<sup>2</sup> Klein-1975, pp. 1305-09

have a large impact (or at least large sales) in the nonprofessional libertarian market. This is mainly due to the general appeal among this group of Austrian analysis and with Kirzner's indirect rationalization of a laissez-faire policy. . . . But the effectiveness of particular institutional arrangements in specific imperfect-information contexts must be determined by much more thorough theoretical and empirical analysis. . . . What Kirzner presents as analysis is merely a turgid terminological system with no clearly stated propositions that could, in principle, be refuted."<sup>3</sup>

*Proposition:* Restrictions on liberty, including high taxes, reduce the motivation, range and prowess of the interpretive faculties that make for the kind of discovery that Kirzner calls "entrepreneurial."

Everyone agrees that bringing statistical evidence to bear on this proposition is difficult. But is refutation possible "in principle"? If so, then, according to the indicated criterion, Kirzner's body of work becomes real science (and rather important science, at that).

Otherwise, would the utters of positivist precepts kindly explain the "principle" that this proposition fails to satisfy, and why that principle ought to be considered the marker of real science?

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Vision, said Jonathan Swift, is the art of seeing things invisible. It takes graduate students with exceptional vision to see the importance of entrepreneurial vision in economic life. In the stories of equilibrium model building, every character sees only the visible, or some portion of it. The character who comes to see the invisible, the character with vision, is not to be seen. Since equilibrium stories crowd the scene in academic economics, the economic man of vision remains the invisible man. He is seen only by graduate students with vision, and such vision is dimly regarded.

Economics departments teach neither the importance of entrepreneurial vision in economic life, nor the importance of intellectual vision in scholarly life. They are content to keep characters with vision out of their stories and out of their company.

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*The Great Faith:* Those achievements that are rewarded by our professional academic institutions are rewarded *because* they contribute to human betterment. There is not only legitimation, but legitimacy.

The profession examines, contrives, and catalogs the failures of organizations, markets, governments, and other institutions, yet blithely holds to The Great Faith.

But where's the model? Where's the data? Or any other form of argument?

<sup>3</sup> Klein-1975, pp. 1304-05.

Meanwhile, gazing across campus, economists frequently regard Sociology, Anthropology, and Women's Studies to be failing fundamentally to contribute to human betterment, even though the institutional structure of those disciplines is identical to that of Economics.

Of all the ideologies in Economics, none is stronger than The Great Faith.

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To the policy squeamish, policy discourse is a painful reminder that he cannot base his political opinions on his opinion of what science is.

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When we say that science is conversation, they jibe: "Ha! – Maybe *your* 'science'."  
– Yes, and *our* conversation.

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Moving through our worlds of languages, people acquire, and make a home from, points of view, ways of seeing and speaking. Re-examining one's positions – re-viewing one's point of view – is a trying business, because one must view from some ground, and once we begin to question our home ground, how do we choose another? Eventually people must claim their ground and their sanity. They must stop inquiring into their own core beliefs, so they install smoke-detectors and sprinkler systems to prevent the fire of inquiry from reaching their own precious ground. It is a necessary and fully human strategy. My only objection is that some people call their systems for extinguishing inquiry "science."

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The prosperity of an academic genre is largely a matter of network effects, and once a critical mass is reached just about any genre could flourish – someday maybe even sensible scholarship.

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Smith-Hayek-Kirzner in a nutshell:

- The mainstream tendency is to make incentives the master principle, to reduce knowledge problems to more fundamental incentive problems, by specifying a cost to thinking and to the acquisition of information. But any understanding of a set of incentives emerges from a deeper body of knowledge. Any understanding of the actor's incentives,  $I_n$ , can be explained by his knowledge conditions,  $K_n$ , which can in turn be explained by a larger or deeper plain of incentives,  $I_{n+1}$ , which can be explained by  $K_{n+1}$ , and so on. Whenever Stigler maintains that Hayek/Kirzner stands on the turtle of incentives, Hayek/Kirzner may retort that Stigler stands on the turtle of knowledge. It's knowledge and incentives

intermeshed all the way down, and they should be dual pillars of theoretical explanation.

- Machines are not human beings because machines quickly come to a final level, full stop. If we give one component (incentives) pre-eminence, we turn actors into machines and impoverish our understanding of human beings and social processes.

- Knowledge consists of the triad: information, interpretation, and judgment. (Information is the reading of the facts through the conventional or working interpretation; we may prefer to state the triad as facts, interpretation, and judgment.)

- Much of modern political economy has miscarried by proceeding as though knowledge were merely information – that is, as though interpretation were symmetric and final.

- Economic prosperity depends greatly on new knowledge – or discovery – of profit opportunities that translate into social betterment. These discoveries are often a transcending of the working interpretation, not merely the acquisition of new information.

- Models assume common knowledge. But usually the sets of relevant knowledge of the relevant actors do not satisfy the common knowledge assumption, so model metaphors are often valueless or even misleading.

- We need better understanding of asymmetric interpretation. The evolution of interpretations is key to appreciating voluntarism as a maxim for policy.

- Though Kirzner would have Mises our greatest teacher, I prefer to regard the foregoing as Kirzner's service to Hayek and Hayek's service to Smith (who enjoyed better times than Mises). Kirzner aids Hayek in getting us back to being leading voices in our communities, engaging others in sensible conversation about how people's conditions and lives can be bettered.

- Smith taught that bad public policy is partly the result of not knowing better, not of evil or greed. Economists may justify their efforts and their salaries chiefly by teaching citizens to know better. Such is the economist's calling.

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From Søren Kierkegaard: The self is a relation which relates to itself.

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To maintain with Hayek that opportunities and knowledge are highly particularistic is to say that cases differ and performance cannot be readily evaluated. To show that libertarian arrangements perform better, Hayek must show the opportunities that dirigiste arrangements *fail* to make use of. But it is precisely such knowledge that eludes mastery.

The strongest evidence for Hayek's view would be the failure of able opponents to show its unsoundness. They withhold this evidence merely by ignoring the libertarian view. Libertarian theorists are defeated by silence.

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Dilemmas of the Hayekian scholar:

He says to himself, "The institution shouldn't exist," and he says to the institution, "I'm the man for the job."

He needs to show himself knowledgeable in professing that society, economy, and self are unknowable.

He must commune with colleagues in the intellectually marginal, while differing on the infra-marginal.

If 51 percent know and oppose his cause, his open efforts contribute to its defeat.

For twelve years he must refrain from trying to explain what water is and that it runs downhill; the tenured professor then finds that again he is a mere novice.

To the ordinary citizen, he says: "In stupendously many ways, each painfully complicated, grotesque, and insulting, government intervention keeps you from living better. Neither you, nor me, nor anyone else can do much to fix the situation. Now, join with us in attending to these matters."

He must entreat them to think about governmental matters and to hope that we may get to a social arrangement in which they need not think about such matters.

He continually finds reason to hope that things will get better, and reason to believe that things are worse than he had thought.

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## References

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**Burke, E. (1932)** *Towards a Better Life*, New York, Harcourt Brace & Co.