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Competition as a Discovery Procedure: A Rejoinder to Professor Kirzner on Coordination and Discovery

Daniel B. Klein[*]
George Mason University
Ratio Institute

Abstract
The Fall 2010 issue of the *Journal of Private Enterprise* featured a complicated set of papers. The lead article was a long paper by Jason Briggeman and me on Israel Kirzner's work on coordination and discovery. The thrust of our paper was an affirmation of Kirzner's central claims, but with two alterations. First, we propose that the coordination that figures into the central issues ought to be understood as what we call concatenate coordination. Second, the central statements at issue ought not be asserted as holding 100 percent of the time, but rather should be by-and-large statements, making for a strong presumption, not a categorical result. Israel Kirzner then replied to our paper. The pair of papers was then the object of commentary by Peter Boettke and Daniel D'Amico, Steven Horwitz, Gene Callahan, and Martin Ricketts. Here, I respond to Kirzner. My replies to the commentators are, because of space constraints, not contained here, but may be found as an appendix in the longer version of this paper available online.

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I. Introduction

> What the market process does is to systematically translate unnoticed opportunities for mutually profitable exchange among individuals into forms that tend to excite the interest and alertness of those most likely to notice what can be spontaneously learned. In this way the opportunities for social improvement via mutually profitable exchanges tend to be most rapidly discovered and exploited.
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> – Israel Kirzner (1979, p.150)

[*] I thank Jason Briggeman for useful comments on this paper.

The Spring 2010 issue of *The Journal of Private Enterprise* featured a symposium organized around a critique that Jason Briggeman and I wrote of Professor Kirzner's work on coordination and discovery. Professor Kirzner provided a lengthy reply to the critique. The two papers were the object of commentary by Peter Boettke and Daniel D'Amico (2010), Steven Horwitz (2010), Gene Callahan (2010), and Martin Ricketts (2010).[1] The present piece is written as a response to Professor Kirzner (the "Professor" will be omitted henceforth with no disrespect). I offer responses to the other commentators, in light of the main-body response to Kirzner, in an appendix to the online version of this paper.[2] Briggeman and I are grateful to all of those who have engaged our work, and to *The Journal of Private Enterprise* for hosting the exchange.

II. Intense Criticism of Deep Formulations Should Not Give Offense

Klein and Briggeman (2010)—henceforth, K-B, treated as a singular noun—critically examines not just one or two features of Kirzner's ideas, but sets of features, and in a way that pulls back the lens and interprets the set in terms of decisions at deep levels of formulation spanning five of Kirzner's books (1973, 1979, 1985, 1992, 2000) as well as numerous additional writings. The K-B critique traces out many dimensions and manifestations, resulting in what Kirzner calls a "barrage of criticisms." Readers of Kirzner's reply will notice that he felt some affront. I hope that any hard feelings can be put aside.

Where Briggeman and I felt that Kirzner became abstruse, we used the word "abstruse." Where we felt that particular invocations of Hayek on coordination were spurious, we used "spurious." Where we felt that Kirzner shifted between meanings, or made inconsistent statements, we used "shifted" and "inconsistent."

A great, visionary thinker such as Kirzner, a maker of master formulations, will run into trade-offs and limitations. In surveying the terrains verged upon when working at a deep level, he must creatively

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[1] The issue also featured a critique by Robert Murphy (2010) of prior works of mine on coordination. I hope to respond to Professor Murphy on a separate occasion.

[2] The version of this paper containing two appendices, one treating of the dovetail joint metaphor and another replying to the commentators, is available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1875243.

formulate alternatives and assess those alternatives for their relative merits. All great thinkers run up against becoming abstruse and shifting about. For example, Adam Smith's moral theory, particularly the enshrouding of all moral judgment in sympathy, was extensively criticized by Scotsmen of his and the next generations as unduly abstruse (see the criticisms in Reeder, 1997). Smith's moral theory is abstruse, as is his price theory. On usury, Bentham (2008) and Dugald Stewart (1856, pp.167–86) criticized Smith's inconsistencies. The criticisms alert us to problems and help us to assess them. Just as it is not bad manners to innovate in the market place (Schumpeter 1934, pp.86–87), it is not bad manners to compete rivalrously over deep formulation.

Kirzner writes that "much of the K-B criticism turns out to be an exercise in semantics which does not affect the validity (in my opinion) of the conclusions reached" (p.70). It is as though Kirzner does not think it necessary to engage questions about the relative merits of two vying ways of discoursing (granting here the internal validity of each). Kirzner writes, "an expression of disagreement on semantics does not constitute a substantive criticism" (p.76). He writes—also in the conclusion (p.83)—as though semantic considerations are indifferent, even as though there is something untoward in raising objections about someone's semantic decisions.

Students of Adam Smith, Friedrich Hayek, Michael Polanyi, and Israel Kirzner understand that decisions emerge from higher, tacit dimensions of knowledge and motivation. To understand an individual's decision, we naturally try to enter into his situation, purposes, and character. That goes as well for decisions about statements, as put in a book. Again, "The words I have spoken and am yet to speak mean nothing: it is only *I* who mean something *by them*" (Polanyi, 1962, p.252). Accordingly, there is no disrespect in the incorporation of character and purpose when dwelling in a writer's statements. It is natural for readers to imagine what varied purposes, what past commitments, might have been involved in his decisions. K-B suggested that certain aspects of Kirzner's statements might have flowed in part from the influence of Ludwig von Mises. It is not an insult to consider how one great thinker may have influenced another.

In research I often delve into the human being behind the words, an approach pursued in hermeneutic interpretation, political psychology, surveys anonymous and non-anonymous, studies of

faculty voter-registration and petition-signing, and studies of individuals, journals, and institutions. The approach also leads me to confess where my words come from. Many find it offensive. Others applaud it but object when it hits close to home. I stand by it philosophically and ethically.

I personally regret that Briggeman and I did not take greater pains to elaborate our high admiration of Kirzner. I think that Kirzner deserves a Nobel Prize, for insights like those at the head of this article, for inspiring so many to search beyond the conventional lampposts, and for leading for four decades the vital program at New York University (of which I was a direct beneficiary). My high admiration and embrace of his ideas have found expression in *The Review of Austrian Economics*, *The Journal of Economic Behavior and Organization*, *The Journal des Economistes et Etudes Humaines*, and *The Freeman,* as well as in a chapter of an edited book. Those tributes to Kirzner have flowed into a book, which treats Kirzner as a principal character, basically affirmed and embraced, but with some adjustments. I have included Kirzner's work in a symposium on knowledge and information and in an anthology on what economists contribute. Briggeman and I repeatedly affirmed Kirzner's central drift. But we should have done more to frame the criticism within broad admiration and agreement. My work has underscored, celebrated, and, I pretend, developed the Hayekian elements in Kirzner's work, and I see Mises as a volcano of thought, flowing into prime features of Hayek and Kirzner that I embrace. Such background is something that K-B took too much for granted—an error that I regret.

Competition is a discovery procedure that, in this case, has already yielded fruit. Kirzner's further remarks help to clarify the issues. Also, he makes at least one major concession, it seems to me. Meanwhile, some of his points lead me to reconsider aspects of my position. Kirzner's reply serves as a focal text with which to test and refine vying perspectives.

III. On the Permissibility of 100% Statements

In his reply, Kirzner writes of "K-B's insistence on a discipline in which all pronouncements are 'loose, vague and indeterminate,' with no '100%' statements permitted" (p.56). In fact, K-B does not insist on no 100% statements. I would not insist on such a thing. In "What Do Economists Know?" Thomas Schelling (1995) discusses the

importance of accounting identities in economics, and I presume that we may regard them to be 100% statements. Another example might be helpful.

In teaching I sometimes present students with what I call the Coase Identity: *When transaction costs are negligible (and parties are aware of the relevant opportunities), parties achieve an efficient outcome.* It is a statement that I would comfortably offer as being 100%. In treating it as 100%, however, I am consciously aware that the statement is rather like an identity. I am aware that "transaction costs" and "efficient" are mutually constitutive. On the parenthetical knowledge condition, transaction costs are in effect defined as whatever blocks an efficient outcome, and "efficient outcome" is in effect defined as what happens when transaction costs are negligible. The duality may well be a good way to organize talk and thinking. Perhaps the equation of exchange, MV = PQ, is a useful identity. So, my view is not that no 100% statements are permissible.

Misesian thinking, in my view, overplays 100%-type claims. It claims to deduce statements of a categorical (or 100%) nature from axioms (and it is quite secondary whether the warrant lies in the "a priori" or elsewhere). K-B suggests that some of Kirzner's claims follow the Misesian mode of making claims 100%. The chief such statements would be the following:

1. Entrepreneurial gain is always coordinative.
2. The only coordinative force is entrepreneurship (or, all coordinative tendencies are entrepreneurial; a point raised in K-B at p.33n.21).
3. Entrepreneurial gain always implies preceding error.

K-B tests the warrant for making the claims 100%. Are they like the 100% claim of the Coase Identity, wherein the 100% lies in the words being mutually constituted? That is, does Kirzner in effect define entrepreneurial gain so as to imply its coordinativeness? And vice versa? And likewise for entrepreneurship and preceding error? If so, the next question is: What does such construction imply? As K-B ask: "What would it mean for Kirzner for entrepreneurship to be discoordinative?" (p.35). Kirzner did not say. Nor does he clarify whether his 100% claims should be understood to be the result of an extensive choice that builds the 100% into the claims by deciding that the words will be stretched as needed—just as I would stretch

"transaction cost" and "efficient" to preserve the Coase Identity. I say "stretch" without scandal—again, critical analysis at this level of formulation naturally recognizes the embarrassments of our formulations and realizes that we must manage as best we can. W.V.O. Quine (1961) writes approvingly of the scientist "warping his scientific heritage to fit his continuing sensory promptings" (p.46).

In fact, Kirzner (2010) scarcely reaffirms his 100% claims. At one point Kirzner does write: "and it is quite true that I do see the winning of pure entrepreneurial profit as a move toward coordination" (p.63). I suppose that we may take him to be saying that gainful entrepreneurial action is *necessarily* coordinative, but it is odd that he does not say "necessarily" or "always," and the "a move toward" makes us wonder whether the action might also give rise to other movements that figure into an assessment of coordinativeness.

IV. A Contending Outlook May Seem Bizarre

Kirzner characterizes the outlook of K-B as bizarre (e.g., "bizarre" at pp.56 and 57). But K-B fits Kirzner's contributions to an outlook aptly associated with Hume, Smith, and, yes, Hayek.

My outlook might be said to be broadly Humean. Our culturally embedded impressions and imagination work with the tangibles of experience, and they give rise to an ongoing series of focal points and conventions, through which we muddle. Encounters and actions, including speech acts, are themselves new tangibles and serve as further focal points. Such muddling along by focal points is the nature of our thinking, as declared in discourse, about such things as human consciousness, personal identity, causation, consent and property, and political authority. The outlook presupposes that discourse takes place within a tangible situation framed by the focal points of our experiences and impressions, and it regards the muddling to be oriented toward our living purposes. We develop classificatory statements "to provide an orderly arrangement of the material which we have to use in our further task" (Hayek, 1943, p.66).[3]

The Scottish enlightenment exhibited a strong tradition of allowing principles to admit of exceptions. My impression is that, in

[3] On the purposefulness of discourse, see in an electronic version of Hume's *Treatise* "service of mankind," "of some importance" and "importance of the truth" and in *Enquiry Concerning Human Understanding* "benefit to society," "what he proposes," and "beneficial to society."

their moral and social philosophy, Hume and Smith do not develop "pure theory," apart from real-world problems, and then "apply" it to their real concerns. I have not found in the Scots a bifurcation of "pure" and "applied" theory (cf. Macfie, 1955, pp.393, 399, 405, 407). Mises, on the hand, was Kantian, and Carl Menger, it is thought (Bostaph, 1994, pp.460–62), and Murray Rothbard, to be sure, were Aristotelian and essentialist. Kirzner, too, has affirmed essentialism (1992, pp.80–85). The latter outlooks sport categorical claims more than does a Humean outlook.

In his reply, Kirzner suggests that pure theory exists independently of its "being applied in making statements about the real world" (p.60). Kirzner even says: "It is certainly true, of course, that in applying economic theory to real-world situations, the 'necessary' truths of theory cannot be relied upon to generate what K-B call '100%' categorical statements" (p.61). Here Kirzner seems to relinquish 100% claims for statements about the real world. If, then, it is only for some delimited domain of situations that Kirzner makes 100% claims, Kirzner should admit that he has often led readers to think that his 100% claims spoke categorically of the economic life of the real world. Also, one would think that Kirzner would take greater pains to clarify the limits of the domain within which his claims hold 100%.

Statements made about the real world, Kirzner says, are "applied theory" (p.60). So perhaps the K-B critique can be seen as criticism of the "pure"/ "applied" distinction. The contending approach, which I favor, minds the real world throughout—"philosophical decisions are nothing but the reflections of common life, methodized and corrected" (Hume, 1748, p.170)—and, at least in the case of Hume and Smith,[4] the author is consciously aware that his real-world interests, his foci, stem from his purposes (a point which, indeed, dovetails with central insights of Kirzner).

Hayek, from the beginning, was significantly more inclined toward a Humean outlook than were Menger, Mises, and Rothbard, and than is Kirzner. Also, it is probably fair to say that Hayek, over time, as he read more widely, increasingly devoted himself to the rehabilitation of liberalism, and worked more in "the sensory order"

[4] Haakonssen (1996) suggests an outlook developed by Hume, Smith, and Millar in some important respects different than those of other Scots, notably Reid and Stewart (cf. pp.5–7, 64, 180–81).

and evolutionary theory, drifted further in directions congruent with Hume-Smith sensibilities. From his copious references to Hume, some reverential, it is clear that it was not only in politics and social theory that the cast of Hayek's mature thought was broadly Humean.

There may be things about my outlook, expressed in K-B or elsewhere, that warrant the description of bizarre, but the things that Kirzner treats as bizarre are, I think, in line with Hume, Smith, and Hayek, as well as with several respectable scholars today.

V. Kirzner's Elision of Concrete Challenges

Briggeman and I (pp.22, 23, 31, 32) noted Kirzner's recalcitrance in taking up concrete challenges posed by critics, and resumed the challenges. Some of the challenges have again been elided (e.g., Kirzner, 2010, p.73). In particular, when critics use concrete narratives about an opportunity and its specific discovery, Kirzner sometimes is unwilling to engage; he insists, effectively, on altering the narrative so as to sustain his claims. Kirzner probably feels entitled to respond in this way, but it would seem incumbent on him to justify the practice.

Kirzner himself employs myriad examples of concrete narrative, examples that infuse his general terms with meaning, examples about Crusoe, about individuals walking down the street, about the insomniac who thinks to eat ice cream, about the professor who neglects to check the train schedule in his pocket, and so on. His 100% statements are offered as though they cover the illustrations that Kirzner gives in developing the ideas. That is why I am surprised by his new statement that the 100% applies only to some abstract domain of "pure theory".

Professor Peter Boettke speaks aptly of theorizing about the real-world doings found "outside the window." Illustration by concrete narrative is in line with that spirit. It is in line with the pervasive statements by Mises, Kirzner, and self-described Austrians that their theorizing is about real-world action. In this connection, some of the writers associated with the blogs *Coordination Problem* and *ThinkMarkets* sometimes invoke the *verstehen* of Weber, the thymology of Mises (1957), and the phenomenology of Alfred Schütz. The urge toward intuition is, of course, healthy and necessary. Lavoie and Storr (2011) reject Mises's dichotomy between praxeology and thymology. Meanwhile, the idea of imaginatively entering into another's situation is introduced in "Of Sympathy," the first chapter of *The Theory of*

Moral Sentiments, and it cornerstones the entire work, which, itself, predicates *The Wealth of Nations*.[5]

But when a critic, practicing the same mode of discourse, frames a narrative challenging one of Kirzner's 100% claims, Kirzner seems to feel entitled to elide the challenge by altering the narrative. Critics have repeatedly posited narratives to illustrate, for example, why social aggregation seems to be at play in Kirzner's theorizing, because a specific discovery, as in developing the automobile, does upset some people's plans. Kirzner replies by insisting that the investment projects were "waiting to explore" (Kirzner, 2010, p.73), presumably like a powder keg with fuse lit. Thus, Kirzner effectively assumes that the discovery is bound to occur so soon that we cannot ascribe any marginal disruption or grief or discoordination to one man's discovery in the instant. Kirzner and others sometimes justify this maneuver by writing as though Kirzner's context is that of some narrow economic model in which multiple arbitragers move the market toward equilibrium. If the 100% of some of Kirzner's claims refers merely to some narrow set of models, and not to what is going on "outside the window," it would be useful if we all openly acknowledged that.

VI. Economics and Error

Among Kirzner's essays, one of my favorite is "Economics and Error" (in Kirzner, 1979). It is devoid of troublesome 100% claims and it brims with human elements precluded in standard economics. It provides a vital distinction between mere mistake and error, and, like Kirzner's glorious review of George Stigler's *The Economist as Preacher* (Kirzner, 1983), it brings it to Stigler's folly of an errorless economics:

> Economics, it thus seems to turn out, is peopled by beings whose purposefulness ensures that they can never, in retrospect, *reproach* themselves for having acted in error. They may, in retrospect, indeed wish that they had been more skillful, or had commanded more inputs, or had been better informed. But they can never *upbraid* themselves for having acted erroneously in failing to command those superior skills

[5] Furthermore, the idea looms large in Smith's *Lectures on Rhetoric and Belles Lettres* (e.g., pp.86–88) and is nicely discussed by Haakonssen (1981, pp.186ff).

> or to acquire more accurate information. They must, at every stage, concede that they had, in the past, acted with flawless precision insofar as they were able. Any *reproaches* they may validly wish to direct at themselves—for example, for not having tried hard enough or for having succumbed to temptation—arise out of later judgments…Such *self-reproach*, as we now understand, is not for having acted in error, in the sense relevant to the discussion (Kirzner, 1979, p.128, italics added).

Kirzner continues in this vein, objecting to an economics in which all action is "beyond reproach," in which "knowledge was treated as something like an input, a tool":

> Someone lacking this needed input could not be *reproached* with error for not achieving that for which this input was needed. And where this input had deliberately and correctly not been acquired because of its cost, this exemption from *reproach* became even more justified. (Kirzner, 1979, p.130, italics added)

Instead, says Kirzner, we want an economics that admits of error. He tells of a person who overlooks a better deal for apples and comes to "reproach himself for having been so absentminded as to pass by the bargain" (p.129). By positing a more humanized agent, embedded in potentialities, Kirzner declares "genuine error and genuine inefficiency" (Kirzner, 1979, p.131). Kirzner reiterates the idiom in later essays, writing, for example: "Not recognizing that he might—had he been more alert—have avoided the incorrect picture of the future, he could not in any meaningful sense blame himself for having erred" (1985, p.56). This line of thinking perhaps reaches its apogee in Kirzner when he replies to Stephen Shmanske (1994), who, like Harold Demsetz, allows of interpretive shifts but treats them as stochastic punctuations. Kirzner writes:

> The decision maker's regret over the missed opportunity refers not to *his* failure to notice the opportunity *at the moment when it might have in fact been noticed*, but (if indeed there *is* room for regret at all) to the circumstances which led him, *in the past*, to invest in alertness in a manner which deliberately

> generated 'insufficient' alertness at the moment of the missed opportunity.…[S]uch an ex post discovery of a missed opportunity may well, when hindsight has revealed that opportunity to have stared one in the face, lead one to regret one's 'blindness'—without excuses. (Kirzner 1994, 225)

The passages quoted above develop an understanding of man living through time, talking to himself and others, reproaching himself, and adjusting his habits of mind and body so as to better his situation. Knowledge entails not merely information, but also interpretation and judgment. When we upbraid ourselves for not having seen a better interpretation of things, we feel we erred and we hope to improve our judgment. Briggeman and I (pp.12–13, 26, 43) affirmed the regret-based formulation of error, and, in Klein (2012, Ch. 7, 14), I explain that the regret may be actual, but, also, it may be only vicarious or potential.

Unfortunately, the regret-based formulation of error is not sustained throughout Kirzner's work. And in his reply Kirzner further distances himself from the regret-based formulation: "No such moral sentiments need be caused by the kinds of error we have identified with unexploited opportunities for pure profit" (Kirzner, 2010, p.73). He grants the story in which Crusoe feels glee, not regret, in hitting upon the idea of building a boat; nonetheless, Kirzner says that Crusoe, in toiling away otherwise prior to making the discovery, *had been erring* (2010, p.75).

Kirzner (2010) even says: "I would readily grant K-B a possible point were they to complain that in some of my work I may have used terms such as 'error' and 'regret' without making it sufficiently clear to the casual reader that I was using this terminology *in a purely 'economic' context*" (p.73, italics added). Again Kirzner invokes "pure theory" or "pure economics" to fend off challenges.

I say to Professor Kirzner: No! Do not repudiate the passages lately quoted! Just as Kirzner has valiantly repelled Stiglerian charges that entrepreneurship, alertness, perception, insight, discovery, and error carry us beyond economics, I wish to repel the notion that reproach, regret, and fault carry us beyond economics. Humans are not only purposive creatures, not only imaginative and creative creatures, they are moral creatures, in the sense that they develop moral sentiments about their conduct, past and present. In this, Francis Hutcheson, David Hume, and Adam Smith were quite right.

Even if it is not part of the so-called logic of choice, it is part of what might be called *the logic of decision making*. If we talk about error, we talk about the correction of error. And if we talk about the correction of error, we talk about learning. It is misguided to suppose that we can talk about learning without incorporating moral mechanisms.

Again, one of Kirzner's chief 100% claims is "[t]o act entrepreneurially is to identify situations overlooked until now because of error" (Kirzner, 1985, p.52; see also 1992, pp.21–23). I submit that in wanting to deliver a key claim as 100%, Kirzner has abandoned the regret-based formulation of error. In this, I say, Kirzner errs. As an application of the idea itself, let me say: Kirzner can *potentially* regret abandoning the regret-based formulation. I vicariously feel the regret, and, by explaining it, I hope to augment the potential for others to feel it.

Stigler wielded his modernism to fend off error and defend an errorless economics. He wrote:

> Potential motivation could indeed rewrite all history: if only the Romans had tried hard enough, surely they could have discovered America (1976, p.214).

> It is the most vacuous of "explanatory" principles to dismiss inexplicable phenomena as mistakes [read: errors]—everything under the sun, or above the sun, can be disposed of with this label, without yielding an atom of understanding (1982, p.10).

The regrettable position lately declared by Kirzner is that as soon as an opportunity is available to you, you are erring in actions taken all the while that you do not discover it, and Kirzner wields *his* modernism to fend off the regret-based formulation of error. On Kirzner's position, we would say that people from the dawn of man up to some 10,000 years ago were erring in not planting seeds to grow food. People were erring in not inventing electricity or telephony before the things were invented. And we are all erring *now*, in most of our doings, as there are opportunities around us, opportunities that we would seize if we knew of them. Where Stigler's modernism yielded a world devoid of error, Kirzner's modernism yields a world in which every action is error.

All discourse is situational, depending on contexts specified, and the circumstances and purposes of the speaker and listeners. We reproach ourselves when we feel that there were interpretations (which would illuminate the opportunity) we *should* have seen, that were *not* so obscure or non-obvious that we now just pardon ourselves. The context and discourse situation suggest the contours of obviousness. Kirzner's (2010) position runs counter to this logic of decision making.

The context of decision suggests standards for the obviousness of an opportunity and hence for regret, and, as in Smith's moral theory propriety inheres in the "mediocrity" of the community (TMS, pp.26, 27), making a benchmark for praiseworthiness and blameworthiness, we naturally adopt benchmarks suitable to the action context and to the discourse situation. Just as we blame conduct that falls short of propriety, we blame ourselves for having failed to see obvious opportunity. Just as we praise conduct that exceeds propriety, we salute discovery of the nonobvious by calling it entrepreneurial. Error and entrepreneurial discovery are thus theoretical inverses.

When someone exceeds a benchmark, it does not necessarily imply that he or anyone else had been falling short of any relevant benchmark. Entrepreneurial discovery does not necessarily imply preceding error.

What, after all, is it that hinges on maintaining that entrepreneurial discovery implies preceding error? Why insist on it? Again, I affirm Kirzner's central drift. Briggeman and I wrote: "Kirzner is on solid ground in supposing that markets do *not* tend toward specific agent errors, and *do* tend to weed out each loss-making activity and to correct agent errors (2000, p.31), so it is appropriate to focus on successful entrepreneurial action in characterizing market tendencies" (K-B, p.10).

The Smithian Kirzner emphasizes regret and self-reproach in his idea of error. In replying to K-B, however, Kirzner repudiates such tendencies. I beseech Professor Kirzner: Keep the regret-based formulation of error! By minding the role of regret we come to make our economics worldlier, more relevant, and more robust.

VII. "Dovetail Coordination"

K-B contends that Kirzner's statements about coordination do not cohere. Mutual (or Schelling) coordination is coherent.

Concatenate coordination is coherent, though admittedly loose, vague, and indeterminate. Kirzner's coordination statements do not cohere.

K-B (p.12) examines *coordination* definitions previous offered by Kirzner. In his reply Kirzner proposes the appellation "dovetail coordination," which he says "refers to the extent to which independently acting participants in a society are inspired to take those actions that correctly anticipate the actions of others in that society" (p.65). I refrain from probing this latest definition.

In a footnote (p.65n.9), Kirzner reveals the proper etymology of the verb *dovetail*, which comes from a woodworking joint shaped like intermeshing doves' tails. This is a neat and valuable discovery. I do not, however, see that the discovery does anything to bolster the coherence or clarity of Kirzner's statements. I see as coherent only mutual coordination and concatenate coordination. I have written an appendix (contained only in the online version of this paper[6]) on how the dovetail joint is suggestive of concatenate coordination and of mutual coordination but does not, to my mind, define or establish some other separate idea of coordination.

VIII. Does Kirzner Admit Inter-Regime Coordination Statements?

Now I turn to something that Kirzner says about his idea of coordination—whatever it may mean, however coherent it may be—in relation to rights regimes.

K-B (pp.36—41) provides quotations from Kirzner such as the following: "coordination cannot be defined except within a given, adopted moral/legal framework; nonetheless, within that framework, it offers an objective criterion" (Kirzner, 2000, p.139). In his reply Kirzner reiterates the view, saying that the coordination "criterion must perforce be deployed only within a *given, accepted* system of rights" (Kirzner, 2010, p.78).

K-B pointed out that Kirzner nonetheless proceeds to make coordination comparisons across legal regimes. In his reply, Kirzner offers the following explanation for his seemingly inconsistent statements:

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[6] Again, the online version with appendices is at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1875243.

> Now let me freely acknowledge that it is certainly not always obvious whether a specific piece of government intervention in the free market is to be interpreted (a) as obstructing freedom of commercial action *within* a *given* rights system, or (b) as a *change* in the rights framework itself. I believe that price controls are usually treated as obstructing freedom of commercial action *within* a given property rights system. I have, I will grant, often worried about this issue.

Kirzner continues:

> To the extent that *any* governmental action is to be interpreted as a change in the rights structure, we would, in all honesty, have to stop criticizing such actions as (dovetail) discoordinative intervention in the market system. It is because, I believe, most people would *not* endorse such an interpretation, that I believe the (dovetail) coordinative norm does have something to contribute (Kirzner, 2010, p.82).

Turning the issue into one of whether "*any* governmental action is to be interpreted as a change in the rights structure" is unhelpful. Let us get back to the specific case of a price control.

Kirzner seems to believe that most people would *not* endorse an interpretation that sees the imposition of rent control as a change in the rights structure. That belief would dovetail with Kirzner's statements (quoted by K-B) that rent control is discoordinative (for, in Kirzner's mind, it then would authorize his assessing the policy in terms of coordination). As to why he thinks that most people would not see rent control as a change in the rights structure, perhaps it is because he sees the people as having an underlying liberal philosophy of unattenuated ownership and freedom of contract. How far would Kirzner be willing to go in not counting a change in legal rights to be a change in the rights structure? When does a change in legal rights become a change in the rights structure? I ask not for a precise demarcation, but for a mere sense of where the gray area falls. Presumably there exists an interventionist change in legal rights that Kirzner would count as a change in the rights structure. What would such a change be, and why would it be counted, but not rent control?

If we took the rent-control regime to be the rights structure, then, according to Kirzner, we could *not* speak of its well-recognized

lamentable features as matters of discoordination, nor of the repeal of rent control being coordinative (for then, I presume, we would be traversing rights structures).

So, it seems that if Kirzner is to avoid deeming his own statements as inconsistent, he faces a choice: Either he must deftly manage the recognition of "a change in the rights structure"—and thereby muddy something that we could otherwise maintain as quite grammatical—or, he must cease and desist from making statements to the effect that policies, even ones like rent control, are discoordinative. We could avoid this unenviable choice by weakening certain claims—going from 100% to by and large—and *properly* locating the loose, vague, and indeterminate.

IX. Kirzner's Response on Opportunism or Exploitation of Ignorance

Another issue is opportunism or the unsavory exploitation of ignorance. K-B raised the point as one of many conceivable counterexamples to Kirzner's claim that 100% of profitable entrepreneur actions are coordinative. We spoke of consumers feeling "ripped off" at a tourist trap, of "opportunism" and the "exploitation of ignorance" (pp.28, 32). Kirzner (pp.78–79) mistreats such counter-examples as "K-B's assumption that exploitation of ignorance is discoordinative," and goes on as though we were suggesting that *any* profiting from the ignorance of others is discoordinative.

Kirzner's only engagement of the challenge is to say, as he once said in response to a similar challenge by Martin Ricketts (see K-B, p.32), that a coordination criterion must "be deployed only within a *given, accepted* system of rights" (p78). This is another example of Kirzner improperly locating the loose, vague, and indeterminate so as to salvage his 100%. He makes rights, or voluntary exchange, loose and vague, when that is one of the prime things that we should wish to keep "precise and accurate," to use Smith's description of commutative justice (TMS pp.327, 175).

Recently my family visited Prague, and, ready for dinner, we searched for a restaurant. At the main tourist square, I consulted the menu displayed outside an Indian restaurant, and we elected to go in. It turned out that, contrary to the norm at Indian restaurants, we had to pay a considerable extra charge for rice to accompany each dish. We cannot say that the restaurant violates the customer's rights—the

impression given by the exterior menu cannot be regarded as a matter of contract, and the customer, after having settled at the table to order dinner, and *then* learning of the large extra charge for rice, is nonetheless free to leave without obligation. Is it not possible, however, that such practice, though profitable and voluntary, may be discoordinative? Rather than gerrymandering rights or perhaps dismissing the challenge as a case of "applied economics" beyond the domain of "pure theory," we should admit of some looseness in coordination and admit of exceptions to the by and large that profitable voluntary entrepreneurship is coordinative.

One of the chief virtues of locating looseness properly and making certain claims "by and large" is that we uphold commutative justice and its dual, liberty, as quite precise and accurate—like, Smith says, grammar (TMS, pp.175, 327). The restaurant did not mess with someone else's stuff (a grammatical matter of commutative justice) but rather made an unbecoming use of its own stuff (a loose matter of distributive justice) (TMS, pp.269–70). Kirzner tries in Misesian fashion to make certain things grammatical that should not be, and winds up rendering unfortunate looseness in things that we wish to highlight as being grammatical.

X. Goodness: Economic and Beyond

K-B introduces the example of *The Communist Manifesto* as an example of "something that frequently occurs in cultural markets—the prosperity of unfortunate, discoordinative ideas, forms, beliefs, and sentiments" (p.29). Even more broadly, K-B suggests that path dependencies and many other factors can upset the correspondence between entrepreneurial gain and enhancement of coordination (p.32). These challenges relate to different ways in which Kirzner confines his claims to "markets" (as opposed to "institutions") and to "economic" considerations (as opposed to wider ethics).

In response to the example of *The Communist Manifesto*, Kirzner takes a firm stance:

> The doctrinal errors contained in the Manifesto, like the possibly pernicious effects of alcohol, tobacco, or other addictive substances, have *nothing to do* with the issue of whe[ther] there is a dovetail coordination linking those who ('mistakenly') desire to consume these items, and their potential suppliers. It should not be necessary to reiterate the

> simple truth taught to beginning students of economics, that the efficient market surely does very often satisfy desires that many may consider harmful, or immoral, or otherwise disastrous. (Kirzner, 2010, p.79)

To my mind, this is the most significant moment in Kirzner's reply.

I think Kirzner has a solid position in maintaining some division between economic and wider considerations. I had never meant to oppose making any such division. We often make some such division in our discourse. Rather, my position is that, first, such a division is generally neither precise nor determinate, and, second, I think that, within the "economic" realms marked out by a sensible division, the economic considerations there will not sustain Kirzner's 100% claims.

Kirzner holds that Marx, Engels, and their publishers gained entrepreneurial profit and thus necessarily advanced economic/dovetail coordination. I do not think that Kirzner has a coherent concept in dovetail coordination, but we do know that in his mind entrepreneurial gain necessarily implies enhancement of coordination. Now, if this implication is tautological, as suggested by Ricketts (2010, p.133), the justification for such semantic arrangement must be that the term *coordinative* is a useful way of elaborating entrepreneurial gain. Indeed, talk of coordination invites us think of the simple, candid self-interest of authors and those who buy their books, and of them voluntarily exchanging money and books. A suitable icon for this simple scene might be a handshake or indeed a dovetail joint. I very much appreciate the accentuation of voluntary agreement, and indeed see it as playing a central analytical role in economics. [The reader might be interested in my essay, "Economics and the Distinction between Voluntary and Coercive Action" (Klein, 2007).]

But, while voluntary exchange provides the first and most formative contour of our economic thinking, it should not preclude other contours. We should limit neither our economic vision nor standards of economic evaluation to principles of voluntarism. We want a richer, more worldly, more robust economics *within which the contours of voluntarism are accorded their centrality*.

If, instead, we insist on 100% claims like those of Kirzner, we end up with a less worldly, less robust economics. Kirzner has to

confine the "economic" so closely to voluntarism that even externalities like pollution have to be treated specially, as extra-economic, as "moral or political," and as not upsetting the denial of market failure (see treatment in K-B, pp.35–36).

Rothbard tends to flatten ethics down to voluntarism. Kirzner recognizes ethics beyond voluntarism. But Kirzner seems, at least in the matter of entrepreneurial gain being coordinative, to flatten the "economic" down to voluntarism. In doing so, I believe that he weakens our efforts to advance a more viable liberal economics—more viable, that is, in the professional and public cultures. Many economists and others will not even recognize or accept the basic liberal notions of voluntarism, commutative justice, or liberty (Klein and Dompe, 2007, p.151f). The way to advance the centrality of voluntarism is not to wrap it in brittle, gerrymandered 100% claims; people will discard the whole package and avoid those who make voluntarism central. Rather, the way to advance the centrality of voluntarism is to relieve it of such claims and to properly locate the loose, vague, and indeterminate.

Yes, voluntary activity constitutes the primary moment of economics. But the basis for this centrality stems, first, from our awareness that trades usually satisfy a low bar of propriety, and, second, from our ability to enter into the situation of the honest trader and sympathize with his deciding freely what to do with his stuff. As Hume says, we have a sense of the reasonableness of respecting the dominium of each over his stuff, and with Smith we appreciate basic market theory about how this works out well generally.

But our sympathy (or thymology) is not limited to such situations. The situation of the one suffering from air pollution, or from a strip club opening up across the street, is also meaningful and real to us. We likewise understand the troubles sometimes involved in addictive substances, and of troubles that arise from path dependence, certain cultural movements, positional contests, greed, opportunism, shirking, and misleading practices. Economists routinely talk about hypothetical "willingness to pay" in many of these various moments. Armed with a piece of chalk, the economist might make these moments seem precise and determinate. In fact there is great looseness and indeterminateness in constructing such hypotheticals and postulating what happens within each, but the fact that the semblance of precision is often quite false does not mean

that all moments beyond that of voluntarism are meaningless or beyond an economic purview.

We might think of layering the moments, one on top of the other. With voluntarism, we have a quite elementary standard of concatenate coordination, and we might then layer on top of it other familiar ideas, like pollution, path dependence, addiction, positionality, or whatever. We can imagine a hierarchy of concatenate coordinations, each more nuanced than the previous, reaching to some enriched sensibility corresponding to an imagined beholder who, despite the profits of Marx, Engels, and their publishers, laments *The Communist Manifesto*. Now, in dividing the "economic" from some broader set of considerations, we would not want to limit "economic coordination" to just a primary coordination of voluntarism: it would reach beyond that. Moreover, wherever we indicate the limits of the "economic," the division would not itself be determinate or clear-cut. Finally, what was located within the "economic" would not be neatly grammatical and would not sustain Kirzner's 100 percents.

Consider *The Wealth of Nations*. Smith did not neatly divide "economic" from some broader set of considerations. For example, he, like Hume, was concerned with pernicious culture and fanaticism, and it led him into discussion of how education mattered to the wealth of nations. Or consider Smith's discussions of taxation. As much as Smith cherished voluntarism, he also saw the merit in accepting a reality entailing tax revenue, and this led him into considerations about the least bad ways of getting it, considerations about tax incidence, deadweight loss, evasion, a shilling meaning more to a poor person than to a rich person, affects on productivity, merit (or demerit) goods, compliance costs, enforcement costs, rules certainty, and political abuse. Are not these—or, at least, some of these—economic considerations, even if secondary to voluntarism?

XI. Other Inaccurate Representations of K-B

I have already indicated that some of Kirzner's representations of K-B are inaccurate. There are a few more. Understanding will be aided if readers know which statement I object to, so I list some, but I mostly refrain from delving into how the representation is inaccurate.

- Kirzner says that "[m]ost of" K-B consists of criticisms "of two papers of mine that focused on the 'coordination' concept" (p.55). Kirzner presumably means Chapters 7 (pp.132–48) and 10 (pp.180–202) of Kirzner (2000). In fact, a large majority of the Kirzner citations in K-B are outside those two papers.
- Kirzner (p.57) says that K-B says that economists who identify with the modern Austrian movement "see an Austrian uniqueness in this objective," the objective being advancing classical liberalism. Further: Kirzner says that according to K-B, "Two of Mises' followers, Rothbard and Kirzner, have seen this libertarian uniqueness as inseparable from the Misesian praxeological framework…" Similarly, Kirzner says that K-B says "that modern Austrian economists see their science as primarily motivated to advance the cause of classical liberalism" (p.58).[7]
- Kirzner writes: "Kirzner is described as having been 'captivated' (!) by Mises ever since the 1950s" (p.57n.2).
- Kirzner writes: "Although K-B do not appear to say so explicitly, their paper strongly suggests that the substance of my own work does not derive importantly from Hayek's contributions. My numerous references to and citations from Hayek, they clearly imply, are merely 'spurious' attempts to win, for my Misesian ideas, the imprimatur of a more widely respected economist" (p.59).
- Kirzner writes: "K-B recognize that Rothbard and Salerno see Hayek as importantly different from Mises, but for reasons unrelated to K-B's position" (p.57n.3; see also p.59 n.6). K-B does not suggest that the two dehomogenizations are unrelated. I think the dehomogenizations [including also that implied by Jakee and Spong (2003)] are related.

XII. Concluding Remark

> This writer knows full well that there may be serious errors in portions of his work, and that, in a career spanning close to

[7] And, incidentally, Kirzner (p.57) quotes K-B as containing "coordination in advancing the cause of classical liberalism," but such fragment does not appear in K-B, nor in an early draft furnished to Kirzner.

> five decades, there is a significant chance that many inconsistencies and infelicities may be discovered.
>
> – Israel Kirzner (2010, p.63)

Whether one agrees more with Kirzner or with K-B about the inconsistencies and infelicities to be discovered in Kirzner's writings, one must agree about the supreme importance of scrutinizing contentions about any such problems, simply because the corpus of work within which they may or may not occur is worth studying, learning from, and making as robust and useful as possible.

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