

Three Essays on the Economic Thought of Israel Kirzner

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This doctoral dissertation defended the importance of Kirzner in the History of Economic Thought for having engaged in bringing the Austrian School's (AS) vision to the rest of the profession.

It was shown that Austrianism was considered a movement of great prestige until the mid-twentieth century, when its influence fell as a school of thought after the debate of economic calculus under socialism. This is also the period of the rise of Keynesianism, which directed the academic environment in Economics towards macroeconomic issues. Issues like this led to the belief that AS was extinct, either because it was absorbed in the mainstream of the profession or because of the belief that there were no especially distinct proposals based on this view that deserved credit.

As seen, these interpretations can be justified in part by the difficulty of Austrian economists at the time in communicating with the rest of the economics. The forms of academic dialogue in the field had changed, and what was unique about Austrianism could not be expressed clearly enough to be intelligible or relevant to other economists. It is in this scenario that Kirzner starts his PhD under the guidance of Mises at NYU and enters the academic career.

Kirzner's main theoretical contribution is arguably the proposition of a theory of entrepreneurship. It did not take long for it to emerge in Kirznerian thought, especially if it is considered that its bases appear in the author's first publication in 1960, and that a preliminary version of this proposition was

discussed in 1967. When consolidated in 1973, this thesis was presented by Kirzner as a version for the theory of the market process, a theoretical framework for the functioning of the economy found in the Austrian view from the works of Mises and Hayek.

In Kirznerian thinking, the theoretical elements that shape the understanding of the market in Austrianism are found simultaneously in the Misesian and Hayekian contributions. Although Kirzner acknowledges the existence of some differences in approach between Mises and Hayek, he realizes that they share the ideas of action, knowledge, competition and market in common. This allows, in Kirznerian thinking, the point of a unified understanding of the market process based on ideas that are dispersed throughout the particular works of these authors. They would be in affinity because they were originally used in opposition to conventional theory, and for this reason they are taken up by Kirzner in the thesis of entrepreneurial activity, to show the relevance of Austrian ideas to the general public of the profession.

Kirzner's theoretical proposal innovates in relation to the traditional theory by replacing the profit-maximizing firm with the entrepreneur alert to opportunities for pure profit. This differentiation makes it possible to express the existence of a speculative component in the decision-making process, first personified in the figure of the entrepreneur and then extended to all human action. This new element was called the alertness state, the entrepreneurial element. This characteristic gives the individual mental process an infinite perception capacity to create and recreate different expectations for the same object over time. Not subject to more specific definition, but by itself likely to act amid the unknown so spontaneous imaginative, just not finding objective factors that may be generators, and so be inaccessible to economic modeling.

If the real economy is marked by the condition of disequilibrium between agents, a direct result of the uncertainty inherent in the economic environment, it is the visionary capacity of the alertness that allows individuals to become more integrated over time. Because this element makes it possible to identify profit opportunities that express a greater chance of coordination between demand and supply in the market. Once the entrepreneurial action has been carried out, these

economic forces are better integrated and are moving in the same direction in which the traditional economics believes it is heading towards equilibrium. As shown, this is why entrepreneurship promotes an equilibrium between the two approaches, Austrian and Neoclassical, although their processes do not share the same nature.

Based on these assertions, it can be said that Kirzner reconsider the market, in relation to the traditional economics, initially admitting it in a disequilibrium situation to allow understanding the competitive process of people in the search for private gains. In addition, this view also allows us to understand the direction of the market through exogenous changes. Therefore, what is the rule in the conventional view of economics becomes an exception in Austrianism: the understanding of the alternations between equilibrium conditions is exchanged for the understanding of what occurs between the existing disequilibrium and the unreachable equilibrium.

From the more general point of view of the profession, the Kirznerian contribution showed how traditional models of competition, centered on the analysis of equilibrium conditions, excluded the figure of the entrepreneur in the economic system and, with that, the entrepreneurial function. As a result, conventional theory ended up neglecting the speculative element that motivates decision making in a disequilibrium situation. In Kirznerian thinking, this diverted attention from Neoclassical theory, preventing it from including in its framework an inherently human characteristic as a promoter of endogenous changes in the economy.

From AS's point of view, Kirzner's works helped in the recovery of Austrianism, with the "Austrian Revival" of 1970 serving as a reference point to evaluate the author's contributions.

In the pre-"Revival" period, Kirznerian thinking is aimed at elucidating the Austrian tradition, which is developed by Kirzner in parallel, laying the foundations that would support his own version of market process theory.

During the "Revival" the author occupies one of the movement's central roles. His participation there is verified in the organizational efforts in favor of an AS, in the academic approach with other approaches and in the maintenance of a

unique tradition that congregates Misesian and Hayekian ideas under the same framework.

In the post-“Revival” the Kirznerian works aim to unify Austrian thought based on the rescue of the pair Mises-Hayek, seeking correspondence between these and the wider body of the profession.

These factors directed Kirzner's attention to two objectives: (i) maintaining the defense of an Austrian position in front of the broader auditorium of the economics; and (ii) sustain a particular vision with the Austrian public. Although the economic literature has already signaled Kirzner's active role under these two points of view, a deeper understanding of these contributions and the economic thinking that motivated them was lacking.

As a hypothesis of the research carried out in this PhD dissertation, it was assumed that Kirzner's role for economics has an accentuated relevance due to the professional engagement posture that the author assumed throughout his career. This attitude, distinct from that of isolationism seen in a portion of the followers of AS, explains the Kirznerian attempts to establish contact with other approaches. And this clarifies Kirzner's importance both from the more general point of view of economics and from the Austrian perspective, since his theory has this double contributory capacity: (i) illustrated to the general body of the profession a theoretical neglect and a possibility of solution; (ii) contributed to the recovery of Austrianism.

In view of the general objective of this PhD dissertation, Kirzner's economic thinking was shown from his attitude of professional engagement, a posture that could be explained in this author's personal quest to take Mises' ideas to the rest of the economics. Something that reflects the isolation that Kirzner claims to have encountered early in his career, the absence of a consolidated group that would follow the Austrian tradition, and the difficulty of establishing dialogue with other economists. The predisposition of Kirzner to engage in the debate with other approaches is also expressed in different ways in Kirzner's *History of Economic Thought*. This is verified in the fulfillment of the specific objectives of this PhD dissertation, through the tests in which it is structured, since each test turned to the fulfillment of two of these objectives.

In the first essay it was seen that Kirzner proposes a version for the theory of the market process, that of entrepreneurship, in the format used by the traditional theory of prices. Based on this proposal, the trajectory of Kirzner's economic thought was shown in the works of the pre-“Revival” period, highlighting the existence of theoretical elements of the theory of entrepreneurial activity since the publication of the author's first book. This review allowed us to clarify the role of Kirzner in the development of an Austrian theory of entrepreneurship, based on his background, whose systematization in a format common to that of traditional theory was identified as an original contribution by the author.

In the second essay there was an attempt to Kirzner in approaching other economic schools. This was accomplished through book reviews, comments and responses that the author wrote throughout his career, material that is less well known, but whose publication occurs from the pre to post-“Revival” period. This analysis allowed to illustrate the use of a particular argumentative style by Kirzner, a “comparative approach” that rescues a theoretical view on a given theme before moving on to its own appreciation. In consulting this specific material, which is less used in research on Kirzner's contribution, it was also possible to identify new aspects of the author's economic thinking. Among them are: (i) the view that Austrian theory is more general than traditional theory; (ii) Kirzner's preference for the market process at the expense of Misesian praxeology; (iii) the search to define the Austrian approach as based on the works of Mises-Hayek, which minimizes the differences between these authors; and (iv) the possibility that the Marxist and Keynesian economic views could be improved by incorporating the theory of entrepreneurial activity.

In the third essay it was proposed to show rhetoric as a tool used by Kirzner in his work for the purpose of engaging with the profession. To that end, Kirzner's economic thinking has been systematized as the two main groups with whom Kirzner sought to communicate throughout his career are defined. This made it possible to understand how the theory of entrepreneurship responds to both, allowing a better understanding of it. The rhetorical differentiation strategy in Kirzner's works was further illustrated with two examples, showing the existence of at least two motivations for the author's rhetorical changes: (i) a theoretical

influence, since Kirzner was involved in debates with approaches based on an economic thought different from his; (ii) a contextual influence, since the first defense of the theory of entrepreneurship aimed at a specific audience at the end of the pre-“Revival” period, eliciting the subsequent reaction of another audience, which gains strength during the “Revival”, to that Kirzner had to address himself in the post-“Revival” phase.

A perception that was latent throughout the PhD dissertation is about a characteristic of Kirzner's professional engagement, his conciliatory role as a theorist in economics. It was seen in the first essay that the author sought to join AS with Neoclassical School through the way in which the theory of entrepreneurial activity was presented. In the second essay, it was highlighted that Kirzner sees differences between Mises and Hayek, but considers them together even in these distinctions, and that he sees the possibility of applying the thesis of entrepreneurial action to other economic approaches. Finally, in the third essay it was seen how the Kirznerian theory can be understood as a subset of the ideas of Radical Subjectivists and Neoclassical School.

The general result of this research, considering the particular conclusions of the essays that support it, is that the mission of taking Mises' ideas to the rest of the profession made Kirzner develop them until the Austrian School's own vision was established. This is understood in Kirznerian thinking as a more general theory about economics, capable of dealing with the disequilibrium, the erratic behavior of agents and their learning, of advancing in subjectivism and making all this compatible in an economy directed to equilibrium. Therefore, the best of the two worlds known as Kirzner, Radical Subjectivism and Neoclassical School, is combined in the description of an economic system interconnected by the state of alertness.