

The Entrepreneur: “One, No One and One Hundred Thousand”¹

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¹The expression is borrowed by the title of the famous Pirandello (1926).



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You will learn at your own expense that in the long journey of life you will encounter many masks and few faces.
-Pirandello (1926)-

I. Introduction

Who – or what – is an entrepreneur? Behind which mask – or masks – does he hide his true face? Although we can easily understand how entrepreneurs represent *the* vital element in economic life, it is pretty difficult to find an adequate treatment of entrepreneurship in contemporary economics textbooks. In modern microeconomics, we find a sophisticated theory of the firm, in which an enterprise is often presented as profit maximizer or cost minimizer; similarly, different forms of market organization are discussed depending on the number of firms acting there. However, these discussions fail to appreciate the fact that at the very heart of the firms, we find the entrepreneurs, or – at the very least – entrepreneurship. It is almost as if the contemporary theory would introduce us to many entrepreneurial masks without attempting to discover the actual entrepreneur's face.

The fact that entrepreneurs are not to be found in economics textbooks does not mean that economists never tried to grasp the nature of such a key element of economic life. In dealing with the concepts of entrepreneur and entrepreneurship, particularly attractive approaches are the ones developed by Joseph Schumpeter (1883-1950) and Israel M. Kirzner (1930-). Their visions seem to hold antagonist; Schumpeter developed a very well-known theory of entrepreneurs and entrepreneurship centered on the concept of "new combinations", which were introduced by special types of humans, entrepreneurs, who were conceived as *leaders* in the process of change. Kirzner, instead, devoted his research activity to developing an alternative concept of entrepreneurship rooted in Misesian human action and in the concept of "alertness" to previously unnoticed profit opportunities. Therefore, while for Schumpeter the concept of entrepreneurship centres around a temporary feature of special human beings, for Kirzner, a certain element of entrepreneurship is potentially present in every individual dealing with the attempt of achieving subjective goals. We could say that for Schumpeter there is *one* entrepreneur, while for Kirzner there are one hundred thousand of them – to keep on playing with Pirandello's piece.

The aim of the present paper is to develop an approach which considers the validity of both theories, by merging them into a new synthesis rooted in the concept of human action as developed by Ludwig von Mises. In Ferlito (2020), a discussion has been presented on how indeed human action has to be placed at the core of economic analysis².

²In Ferlito (2020, p. 4) I was asking: «What is human action, then?», answering, with Mises (1949, p. 11), that «human action is purposeful behavior. Or we may say: Action is will put into operation and transformed into an agency, is aiming at ends and goals, is the ego's meaningful response to stimuli and to the conditions of its environment, is a person's conscious adjustment to the state of the universe that determines his life».

2. Schumpeter: The Entrepreneur as a Leader

Schumpeter's theory of innovation and entrepreneurship is so famous that it has become necessary to briefly restate its main points, trying to directly follow Schumpeter's footsteps and, at the same time, freeing his perspective from certain *clichés*. I will focus on the Schumpeterian entrepreneur as described in the first English translation (1934) of *Theorie der wirtschaftlichen Entwicklung* (*The Theory of Economic Development*) (1911), which was made from the second German edition (1926)³.

First, Schumpeter's entrepreneurship vision should be analyzed as part of a more global perspective on the process of economic development. In developing his theory, Schumpeter described the entrepreneurial character only after having detailed what *development* means, its differences compared to circular flow⁴ (and the place for static theory), the emergence of innovations and the role of bankers. The entire first part of Chapter 2 in Schumpeter (1934) is devoted to describing what economic development is and why it cannot be understood using the tools of circular flow analysis. According to Schumpeter (1934, p. 64), «[d]evelopment in our sense is a distinct phenomenon, entirely foreign to what may be observed in the circular flow or in the tendency towards equilibrium. It is spontaneous and discontinuous change in the channels of the flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing».

Such changes, moreover, «are not forced upon [economic life] from without but arise by its own initiative, from within» (Schumpeter, 1934, p. 63); therefore, for Schumpeter, development is an endogenous phenomenon. Thus, the first important point is that economic development is the movement away from an existing equilibrium condition or a disturbance of such an equilibrium state.

Second, after this clarification, when introducing the concept of “new combinations”, Schumpeter described how economic development actually manifests itself: «(1) The introduction of new goods—i.e., something with which consumers are not yet familiar—or a new quality of goods.
(2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which by no means has to be founded on a new, scientific discovery and can also exist as a new way of handling a commodity commercially.
(3) The opening of a new market, that is a market into which the particular branch of manufacture into which the country in question has not previously entered, whether or not this market had existed before.
(4) The conquest of a new source of supply of raw materials or semi-finished goods, again irrespective of whether this source already exists or whether it has first to be created.
(5) The carrying out of the new organization of any industry, such as the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position» (Schumpeter, 1934, p. 66). New combinations are therefore the essence of economic development.

The third essential element of the economic development process is *credit*. According to Schumpeter (1934, p. 69), «the possessor of wealth, even if it is the greatest combine, must resort to credit if he wishes to carry out a new combination, which cannot like an established business be financed by returns from previous production». This means that new combinations can, in no way, be brought out using existing savings. Therefore, there cannot be any economic development without the creation of debt. Schumpeter considered development to be impossible without what he called as the «creation of purchasing power by banks»

³ The first edition was published in 1911. Thanks to Becker, Knudsen and Swedberg (2011), an English translation of the central chapters of the 1911 edition of *Theorie* is now available.

⁴ An economic system that just reproduces itself.

(Schumpeter, 1934, p. 73), despite admitting that such a development process generates a boom and bust cycle. This is one of the strongest statements among Schumpeterian insights: the role of entrepreneurs is meaningless without the banker, who is thus at least as important as the entrepreneurs in carrying out new combinations, which constitutes the essence of the development process. Schumpeter (1934, p. 74) was very clear about this: «The banker, therefore, is not so much primarily a middleman in the commodity “purchasing power” as a *producer* of this commodity. [...] He makes possible the carrying out of new combinations, authorises people, in the name of society as it were, to form them. He is the ephor of the exchange economy».

However, new combinations and credit alone are insufficient for the emergence of economic development. A further element is necessary, which Schumpeter (1934, p. 74) called the «fundamental phenomenon of economic development». In fact, if developing new combinations can be called “enterprise”, then «the individuals whose function it is to carry them out [are called] ‘entrepreneurs’» (Schumpeter, 1934, p. 74). It is at this point that Schumpeter started to develop his famous entrepreneur theory. It is therefore clear that “entrepreneurs” and “capitalists” are, functionally speaking, very distinct subjects, where the former carrying out new combinations and the latter providing (creating) the purchasing power necessary for them.

But the central question is this: why «is the carrying out of new combinations a special process and the object of a special kind of ‘function’» (Schumpeter, 1934, p. 79), called the entrepreneurial function? According to Schumpeter, in the realm of circular flow economic agents are able to promptly and rationally act and react to given circumstances that repeat themselves over time. *Normal* individuals can face such an environment. But, when changes and innovations happen, normal individuals need *guidance* (Schumpeter, 1934, p. 79). Because of the need for such guidance, «the carrying out of new combinations is a special function, and the privilege of a type of people who are much less numerous than all those who have the ‘objective’ possibility of doing it» (Schumpeter, 1934, p. 81). Entrepreneurs are the special type of persons, with a special behavior, who are able to exercise such guidance.

There is another crucial aspect that can be misunderstood, which Schumpeter (1934, pp. 84-91) discussed at length: *leadership*. Calling *innovation* the introduction of new combinations, the Schumpeterian entrepreneur is rightly identified as an *innovator*. The word is not free from ambiguity and misunderstandings. Though scholars have often clarified that innovation is not necessarily a new invention, the risk is high of identifying the entrepreneurial function with the invention of something new. However, an entrepreneur is not an inventor (Schumpeter, 1947, p. 152). The entrepreneur is a special type not simply because he carries out new combinations, but also because in doing so he masters a development process that is a process of change. By introducing new combinations into the economic system, entrepreneurs demonstrate themselves capable of acting where normal individuals stop.

According to Schumpeter (1934, pp. 84-87), moving outside the boundaries of the circular flow is difficult and require special individuals for three kinds of reasons: «First, outside these accustomed channels the individual is without those data for his decisions and those rules of conduct which are usually very accurately known to him within them. Of course, he must still foresee and estimate on the basis of his experience. But many things must remain uncertain, still others are only ascertainable within wide limits, some can perhaps only be “guessed.” [...]

Here the success of everything depends upon intuition. [...]

As this first point lies in the task, so the second lies in the psyche of the businessman himself. It is not only objectively more difficult to do something new than what is familiar and tested by experience, but the

individual feels reluctance to it and would do so even if the objective difficulties did not exist. [...]

The third point consists in the reaction of the social environment against one who wishes to do something new. [...]

There is leadership *only* for these reasons».

These features need to be further emphasized. Innovation is a change in the economic system (Schumpeter; 1935, p. 4). The entrepreneur who introduces innovations is a special type because such changes cannot be faced and managed by ordinary individuals. In carrying out new combinations, entrepreneurs move the system out of the equilibrium state; additionally, after innovations are introduced, businessmen face the struggle of making the innovation win against “the old way” of doing things, against social hostility. In this struggle, it is not the invention that characterizes the entrepreneur, but his *leadership*, his ability to master the new situation. This is the reason why Schumpeter (1934, p. 88) stressed that it «is not part of his [the entrepreneur’s] function to ‘find’ or to ‘create’ new possibilities. They are always present, abundantly accumulated by all sorts of people».

While many people see things, the leader *does* things. It is therefore «more by will than by intellect that the leaders fulfill their function, more by ‘authority,’ ‘personal weight,’ and so forth than by original ideas» (Schumpeter; 1934, p. 88). A further pursuit is that economic leadership must be distinguished from invention. The emphasis on this aspect was even stronger in the first edition of *Theorie*: «You can always have the new combinations, but it is the act and the force to act that is indispensable and decisive. [...] The decisive moment is therefore energy and not merely the ‘insight.’ The latter is much more frequent, without leading to even the most simple act. What matters is the disposition to act. It is the *ability to subjugate others* and to utilize them for this purpose, in order to prevail that leads to successful deeds—even without particularly brilliant intelligence» (Schumpeter; 1911, p. 123, italic added).

This is another element that we must bear in mind for our comparison with Kirzner’s perspective: leadership is a special attitude and therefore leaders are a special kind. This, as we shall see, sharply contrasts with Kirznerian alertness as a basic feature of human action. Moreover, the emphasis on the *special character* of entrepreneurs is one of the elements that Schumpeter did not change as his vision of entrepreneurship evolved.

The remuneration that makes its way into an entrepreneur’s pocket is called *profit*, which Schumpeter (1934, p. 128) simply defined as a surplus over costs, a difference between receipts and outlays. With usage of the word “outlay”, Schumpeter meant that all the disbursements which the entrepreneur must make, including the salary for his own work, the price of the factors of production and the premium for risk. Therefore, profit is not the reward for the entrepreneur’s labor and it is not related to risk. Schumpeter (1928, pp. 266-271) more analytically explained that there are several types of income that entrepreneurs can receive, but that, at the same time, do not fall into the profit category: interest on capital, a salary for administrative work, revenues on patent rights, a premium for risk, or “opportunistic profits” arising from seasonal factors. Entrepreneurial profits are instead linked with the entrepreneurial function, that is, of bringing out new combinations (Schumpeter; 1928, pp. 270-271). Because of this link between entrepreneurial profit and entrepreneurial function, profit is by nature temporary (Schumpeter; 1934, p. 132). In fact, due to the profit motive «new businesses are continually arising» (Schumpeter; 1934, p. 131). Profit expectations, therefore, drive competitors and imitators to enter the world of new combinations; a complete reorganization of the affected industry happens, squeezing profits until they disappear and a new equilibrium state is reached. However, although temporary, profit exists and it flows out from the very nature of the entrepreneurial function, or the will and the action necessary to carry out new combinations (Schumpeter; 1934, p. 132).

It is very well known that Schumpeter's vision of entrepreneurship evolved over decades. The emphasis on the entrepreneur and his exceptional character, grounded in his will and leadership, gave way to a deeper analysis of the entrepreneurial function (1926), while implementing new combinations gradually lost its link to the entrepreneur *as a person*. As he lived through the passage from the "heroic" stage of industrial development hallmarked by individual entrepreneurs to the next stage characterized by the emergence of trusts, new combinations called *innovations* were still present in Schumpeter (1939) and innovations became central to the business cycle analysis. Entrepreneurs were still present, but Schumpeter gradually recognized the declining importance of the entrepreneurial function in the age of trusts. Schumpeter did not renounce his view of entrepreneurs; he simply observed that the general economic scenario was changing: «Already, the volitional aptitudes that made the successful entrepreneur of old are much less necessary and have much less scope than they used to have. It is no chance coincidence that the epoch in which this decrease in importance of the entrepreneurial function first asserted itself is also the epoch in which the social and political position of the *bourgeoisie* first began to display obvious symptoms of weakness and to be attacked with success» (Schumpeter, 1939, p. 109)

Such an observation is a bridge toward what Schumpeter (1942, pp. 131-134) called the *obsolescence of the entrepreneurial function*. Schumpeter (1942, p. 132) observed that the peculiar function of "getting things done", the drive of the personal will, was losing importance for two orders of reasons. On one hand, the task of innovation was becoming the activity of trained specialists; while on the other hand, the social environment was becoming accustomed to economic change and therefore resistance to it was declining. «Now a similar social process—in the last analysis the same social process—undermines the role and, along with the role, the social position of the capitalist entrepreneur. His role, though less glamorous than that of medieval warlords, great or small, also is or was just another form of individual leadership acting by virtue of personal force and personal responsibility for success. His position, like that of warrior classes, is threatened as soon as this function in the social process loses its importance and no less if this is due to the cessation of the social needs it served than if those needs are being served by other, more impersonal, methods» (Schumpeter, 1942, pp. 133-134).

The decline of the entrepreneurial function and entrepreneurs, according to Schumpeter, opened the doors to the end of "capitalism" as we know it. Economic progress becomes depersonalized and automated, while committees and planning offices replace individual action. The result, Schumpeter (1942, p. 134) stressed, may not differ from what Marxist scientists describe: *de facto* socialism.

3. Kirzner: Entrepreneur's Alertness to Profit Opportunities

While *Theorie der wirtschaftlichen Entwicklung* is the book that should be studied in order to grasp the Schumpeterian vision about entrepreneurship, Kirzner's central work on the topic is *Competition and Entrepreneurship* (Kirzner, 1973). In a way, the starting point for the authors is not radically different. In the first chapter of *Theorie*, Schumpeter described the circular flow, a static economic system "ruled" by Walrasian scientific laws. He then shifted his focus, explaining that such a system is inadequate to grasp the dynamic nature of a capitalist development. In a similar way, Kirzner started by explaining why the neoclassical static mainstream is not the proper paradigm to analyze the competitive process (Kirzner, 2000, pp. 6-11). In fact, Kirzner's theory of entrepreneurship is part of a more general reflection devoted to competition as a market process in which entrepreneurs play a key role.

Kirzner's starting point is a «dissatisfaction with the usual emphasis on *equilibrium analysis*» and the «attempt to replace this emphasis by a fuller understanding of the operation of the market as a *process*» (Kirzner, 1973, p. 1). According to mainstream thought, in fact, the main task of price theory is to bring out a set of prices and quantities consistent with equilibrium conditions⁵. On the contrary, Kirzner (1973, pp. 6-7) tried to «[...] look to price theory to help us understand how the decisions of individual participants in the market interact to generate the market forces which compel changes in prices, in outputs and in methods of production and the allocation of resources. [...] The efficiency of the price system, in this approach, does not depend upon the optimality (or absence of it) of the resource allocation pattern at equilibrium; rather, it depends on the degree of success with which market forces can be relied upon to generate spontaneous corrections in the allocation patterns prevailing at times of disequilibrium».

The "original sin" of the neoclassical mainstream, in Kirzner's view, is to refer to competition as "a state of affairs". We all studied in our microeconomics textbooks that *perfect competition*, by definition, is a state of affairs in which economic players are characterized by perfect knowledge, perfect foresight and, to complete, behave as price-takers⁶; there are so many players that nobody can actually influence the price level. Furthermore, technology, tastes and preferences, together with expectations, are given and they are not subject to internal forces that would change them.

Finally, in neoclassical perfect competition, the time dimension is missing. It is self-evident that this definition describes «the opposite of its meaning either in ordinary language or in common sense economic discussions of competition» (O'Driscoll and Rizzo, 1985, p. 124).

In order to develop his entrepreneurial theory, therefore, Kirzner (1963, p. 3) first sought to redesign a market theory to set up the framework in which entrepreneurs act. Consumers, entrepreneurs/producers and resource owners are the players in the market; the market, in turn, is where their interacting decisions take place during any given time period. Every player has their own content of (limited) knowledge, tastes and expectations. Depending on their knowledge, tastes and expectations, the players set up their actions, decisions or plans. Since individuals need to interact in order to carry out their plans, it is only through interaction over time that the information content will be modified and eventually decisions can be revised: «[...] During the given period of time, exposure to the decisions of others communicates some of the information these

⁵ Kirzner (1997, p. 61): «At the basis of this approach is the conviction that standard neoclassical microeconomics, for which the Walrasian general equilibrium model [...] is the analytical core, fails to offer a satisfying theoretical framework for understanding what happens in the market economies».

⁶ As stated in Kirzner (2000, p. 13), in such a system, rivalry, which is the essence of competition, is absent.

decision-makers originally lacked. If they find that their plans cannot be carried out, this teaches them that their anticipations concerning the decisions of others were overly optimistic. Or they may learn that their undue pessimism has caused them to pass up attractive market opportunities⁷. This newly acquired information concerning the plans of others can be expected to generate, for the succeeding period of time, a revised set of decisions» (Kirzner, 1973, p. 10).

As defined by Kirzner (1973, p. 10), then, the market process is built up by «this series of systematic changes in the interconnected network of market decisions». Therefore, it is not possible to conceive of a market process in the realm of perfect knowledge. The process arises precisely because of the initial ignorance of market participants and the natural uncertainty of human action. And the process can only happen during the flow of *real time*. With no market ignorance and no review of plans, there is no process at all. Starting with the Misesian concept of purposeful action and building on the Hayekian insight of the market process as a process through which players' plans become more consistent with each other, Kirzner explained the *competitive nature* of such a process: since from one period of market ignorance to the next ignorance has been somewhat reduced, market participants realize that not only should they implement more attractive opportunities but also that such attractiveness needs to be judged in comparison with the opportunities offered by competitors (Kirzner, 1973, p. 12). When the incentive to offer more attractive opportunities stops, the competitive process stops too, while the neoclassical equilibrium theory systematically ignores the "dynamic rivalry" constituting competition (Kirzner, 1997, p. 68). In a situation of market equilibrium, such as the one described by the neoclassical theory of perfect competition, there is no room for competition at all.

In describing such a process, almost incidentally and initially imagining a fictional world in which market participants are unable to learn from their experience, Kirzner (1973, p. 14) introduced a special group of individuals, who «are able to perceive opportunities for entrepreneurial profits; that is, they are able to see where a good can be sold at a price higher than that for which it can be bought». These are *entrepreneurs*, who «immediately notice profit opportunities that exist because of the initial ignorance of the original market participants» (Kirzner, 1973, p. 14). Of course, to describe the real market process, it is not necessary to divide the actors into two rigid groups - one that cannot learn from experience and the other one (entrepreneurial) which instead can. It is realistic, indeed, to introduce the entrepreneurial aspect as an element of the activities of each market participant. It follows that the market process is essentially entrepreneurial (Kirzner, 1973, p. 15): since *entrepreneurship* is *alertness* to profit opportunities deriving from market ignorance and the market process is the set of revisions in plans following the modification of knowledge, the two concepts are intrinsically bonded.

It is only after this brief introduction of the concept of entrepreneurship in the realm of the market process that Kirzner moves on to detail his perspective about the entrepreneur. The first important note he brought out is that entrepreneurship is related to human action and is therefore potentially present in each individual (Kirzner, 1973, p. 31). In particular, as Kirzner developed the market process notion in opposition to an equilibrium approach, the author contrasted entrepreneurial activity with economizing and maximizing functions. «[...] It is my position that this analytical vision of economizing, maximizing, or efficiency-intent individual market participants is, in significant respects, misleadingly incomplete. It has led to a view of the

⁷ Also Schumpeter (1947, p. 157) emphasized the entrepreneurial attention to profit opportunities, but with a different accent: «The entrepreneurial performance involves, on the one hand, the ability to perceive new opportunities that cannot be proved at the moment at which action has to be taken, and, on the other hand, will power adequate to break down the resistance that the social environment offers to change». For Schumpeter, such opportunities cannot be proved, while for Kirzner they are consistent in a means–ends framework.

market as made up of a multitude of economizing individuals, each making his decisions with respect to given series of ends and means. [...] A multitude of economizing individuals each choosing with respect to given ends and means cannot, without the introduction of further exogenous elements, generate a market process (which involves systematically *changing* series of means available to market participants)» (Kirzner, 1973, pp. 32-33).

The important point raised by Kirzner is that, in such an analytical framework in which ends and means are given, there is no room to study *how* ends and means are decided. To overcome the economizing notion, he went back to Mises's concept of *human action*. It is necessary to quote Kirzner's words in full: «[...] Instead of economizing, I maintain, it will prove extremely helpful to emphasize the broader Misesian notion of *human action*. As developed by Mises, the concept of *homo agens* is capable of all that can be achieved by using the notions of economizing and of the drive for efficiency. But the human-action concept, unlike that of allocation and economizing, does not confine decision-maker (or the economic analysis of his decisions) to a framework of given ends and means. Human action, in the sense developed by Mises, involves courses of action taken by the human being "to remove uneasiness" and to make himself "better off." Being broader than the notion of economizing, the concept of human action does not restrict analysis of the decision to the allocation problem posed by the juxtaposition of scarce means and multiple ends. The decision, in the framework of the human-action approach, is not arrived at merely by mechanical computation of the solution to the maximization problem implicit in the configuration of the given ends and means. It reflects not merely the manipulation of given means to correspond faithfully with the hierarchy of given ends, but also *the very perception of the ends-means framework* within which allocation and economizing is to take place» (Kirzner, 1973, p. 33).

While Robbins's economizing man can only react in a given way to a strictly defined set of ends and means, Misesian *homo agens* can also identify which ends to strive for and which means are available. This is possible because human beings can actually «*imagine* the future, even a non-existent, unknowable future» (Kirzner, 1992, p. 25). Instead, economizing behavior does not take into account the process of identifying ends and means. It is at this point that Kirzner specifically introduced his famous concept of *alertness*⁸ to «possibly newly worthwhile goals and to possibly newly available resources» (Kirzner, 1973, p. 35); such alertness is what he labeled the *entrepreneurial element* in human decision-making. If entrepreneurship is alertness, then the succession of different decisions and their revisions can be seen as a sequence of linked actions, the fruit of the learning process due to alertness (Kirzner, 1973, p. 36). In a way, the concept of alertness is linked with *discovery* and *surprise*: profit opportunities do not "fall from the sky" but neither do entrepreneurs deliberately look for them: «[...] The profit opportunities created by earlier entrepreneurial error do tend systematically to stimulate subsequent entrepreneurial discovery. The entrepreneurial process so set into motion, is a process tending toward better mutual awareness among market participants. The lure of pure profit in this way sets up the process through which pure profit tends to be competed away. Enhanced mutual awareness, via the entrepreneurial discovery process, is the source of the market's equilibrative properties» (Kirzner, 1997, p. 72).

From this Kirzner derived his concept of the *pure entrepreneur*. For Schumpeter the action that identifies the pure entrepreneur is to bring out new combinations; for Kirzner (1973, p. 39) he or she is «a decision-maker whose *entire* role arises out of his alertness to hitherto unnoticed opportunities». For both economists, in fact, entrepreneurship is completely independent of the ownership of the means of production. The entrepreneurial function is instead strictly related to a special attitude: introducing new combinations (action) for Schumpeter, alertness (pre-action) for Kirzner. Regarding alertness, however, a clarification becomes

⁸ Sometimes called also awareness. As explained in Kirzner (1963, p. 42), entrepreneurs are aware before others of the discrepancies between prices that can generate profits.

necessary: The Kirznerian entrepreneur does not possess greater knowledge. On the contrary, alertness is defined as «the “knowledge” of where to find market data» (Kirzner, 1973, p. 67). Therefore, the Kirznerian type of entrepreneurship is in no way related to a certain kind of superiority but consists *only* in «“knowing where to look for knowledge” rather than knowledge of substantive market information» (Kirzner, 1973, p. 68); this is the reason why Kirzner did not label this attitude *knowledge* but *alertness*.

The most distinctive feature of the Kirznerian entrepreneurial function is to move the market from a disequilibrium status toward equilibrium (Kirzner, 1973, pp. 69-75). The starting point of human action, in fact, is always a state of disequilibrium characterized by market ignorance. As already noticed, it is through interaction in the market that knowledge can be transmitted and acquired, bringing out revisions to plans. Entrepreneurial alertness allows such changes to happen and, therefore, by reducing market-ignorance and driving plans toward mutual compatibility, it is an *equilibrating* force. The market approach, in fact, focuses «on the role of knowledge and discovery in the process of market equilibration. In particular this approach (a) sees equilibration as a systematic process in which market participants acquire more and more accurate and complete *mutual knowledge* of potential demand and supply attitudes, and (b) sees the driving force behind this systematic process in what will be described below as *entrepreneurial discovery*» (Kirzner, 1997, p. 62).

The equilibrating process consists exactly in the acquisition of better mutual information concerning the plans made by different market actors⁹. It is only in disequilibrium that profit opportunities actually exist and can be discovered by entrepreneurial alertness¹⁰. In this sense, alertness allows discovery and discovery plays an equilibrating role, reducing market-ignorance (Kirzner, 1997, p. 68).

Finally, for Schumpeter entrepreneurial profit comes from the essence of the entrepreneurial function, which is introducing new combinations; for Kirzner (1973, 48) it is a consequence of alertness: «[...] The pure entrepreneur [...] proceeds by his alertness to discover and exploit situations in which he is able to sell for high prices that which he can buy for low prices. Pure entrepreneurial profit is the difference between the two sets of prices. It is not yielded by exchanging something the entrepreneur values less for something he values more highly. It comes from discovering sellers and buyers of something for which the latter will pay more than the former demand. The discovery of a profit opportunity means the discovery of something obtainable for nothing at all. No investment at all is required».

For Kirzner as well, entrepreneurs can obtain their resources from capitalists (this is another common element with Schumpeter) and profit must be kept separate from interest.

⁹ In the market economy the problem of coordination finds solution in the market process and the key role is played by prices. (Kirzner, 1963, p. 38).

¹⁰ «[...] mutual knowledge is indeed full of gaps at any given time, yet the market process is understood to provide a systemic set of forces, set in motion by entrepreneurial alertness, which tend to reduce the extent of mutual ignorance. Knowledge is not perfect; but neither is ignorance necessarily invincible. Equilibrium is indeed never attained, yet the market does exhibit powerful tendencies toward it» (Kirzner, 1992, p. 5).

4. A Comparison: Common Elements and Differences

It is now time to see if there are elements to find common features to reduce the gap that seems to separate the two economists¹¹. The analysis developed in this paragraph is the door to developing a new vision about entrepreneurship in the next section.

As I have already pointed out, both Schumpeter and Kirzner started showing a sort of delusion with respect to the neoclassical equilibrium approach. The first chapter of *Theorie* is devoted to the description of the circular flow (or what Mises, 1949, pp. 245-251, called “the evenly rotating economy”), an economic system which, by repeating itself, can be studied with a static approach to economics. However, Schumpeter (1934, pp. 61-62) claimed to be interested in a different analysis, for which the circular flow method is not adequate: «The theory of the first chapter describes economic life from the standpoint of a “circular flow,” running on in channels essentially the same year after year—similar to the circulation of the blood in an animal organism. Now, this circular flow and its channels do alter in time, and here we abandon the analogy with the circulation of the blood. For although the latter also changes in the course of the growth and decline of the organism, yet it only does so continuously, that is by steps which one can choose smaller than any assignable quantity, however small, and always within the same framework. Economic life experiences such changes too, but it also experiences others which do not appear continuously and which change the framework, the traditional course itself. They cannot be understood by means of any analysis of the circular flow [...]. Now such changes and the phenomena which appear in their train are the object of our investigation. [...] How do such changes take place, and to what economic phenomena do they give rise?».

Similarly, Kirzner did not deny in toto the validity of the general economic equilibrium approach, but he judged it as insufficient for analyzing the market approach. The first common element that thus needs to be stressed is the dissatisfaction with the static neoclassical approach; it is this dissatisfaction that moved both authors toward dynamic theories. Consequently, it is in the realm of these dynamic theories that Schumpeter and Kirzner gave life to their entrepreneurs.

Such dissatisfaction drove the two economists to move toward dynamic theories. However, their theories are different: a development theory centered on carrying out new combinations for Schumpeter and a dynamic market process focused on knowledge and market ignorance reduction for Kirzner. As we have seen, Schumpeterian development theory is the analysis of economic change dynamically built on the role of entrepreneur-innovators as special types of humans. The Kirznerian market process, on the contrary, is carried out by human action that does not require leaders or special human beings.

In any case, entrepreneurs play a crucial role in both the development theory and market process theory. Both Schumpeterian and Kirznerian entrepreneurs arise as human types in contrast to something else. We know that for Schumpeter, entrepreneurs are special human types with a peculiar function; as I have previously pointed out, Schumpeterian entrepreneurs not only bring out new combinations, driving economic change, but they are also and primarily leaders who are able to master economic change, daring where normal individuals stop, facing social and economic opposition and finally winning their challenges. Such a special type of human is in contrast to normal or static individuals, who can only promptly react to well-known economic conditions. We can consider the static type analyzed by Schumpeter as the Robbinsian economizing man to

¹¹ Kirzner himself is constantly concerned about the comparison between his view and Schumpeter's. See Kirzner (1973, pp. 79-81; 1999; 2008).

which Kirzner contrasts his homo agens¹². Where economizing man can simply make rational decisions faced with given ends and means, Kirznerian *homo agens* is also able to set his ends–means framework and modify it while acquiring knowledge through market interactions; each *homo agens* is endowed with «propensity for alertness toward fresh goals and the discovery of hitherto unknown resources» (Kirzner, 1973, p. 34).

At this point we must insert a big “however...” Although we should recognize both the Schumpeterian innovator and the Kirznerian *homo agens* as opposed to the Robbinsian static economizing man, the degree to which they are opposed to is different. Schumpeter was talking about two kinds of people that actually exist; Kirzner was instead explaining two facets of a process. For Schumpeter, an entrepreneurial leader is a different human being, in contrast to static people; he was talking about two different categories of beings. Instead, in Kirzner the contrast is lighter: to be *homo agens* is not something set against economizing activity; rather, after we «identify the ends–means framework which *homo agens* perceives as relevant, we can analyze his decision in orthodox Robbinsian allocation-economizing terms» (Kirzner 1973, p. 34). This means that Kirzner did not distinguish two kinds of human beings but two different stages in human actions. Each acting person needs first the entrepreneurial element called alertness to «possibly newly worthwhile goals and to possibly newly available resources» in order to identify his means–ends framework; economizing activity is possible *as a consequence* of such identification. However, to indicate his difference with the neoclassical paradigm, Kirzner explained that ends and means are not given once and forever; as time flows, interaction and alertness can force revision of previous frameworks, bringing out new ones with new and different economizing decisions.

With regard to this point, one more thing should be noted: for Schumpeter, *not* everybody is potentially an entrepreneur. Leadership and a propensity to change are features of a specific type of human who is different from the static type. For Kirzner, however, entrepreneurship, defined as alertness to unnoticed profit opportunities, is potentially present in every person. In this sense, as explained in Huerta de Soto (1992), human action and entrepreneurship are strictly related. Entrepreneurship is necessary to everybody in order to set the means–ends framework; not everybody is alert with regard to the same profit opportunities at the same time; but alertness is a necessary element for human action regardless. Moreover, while Schumpeterian entrepreneurship as an attitude toward change is temporary by nature and, in the same person, will exhaust its force after a certain period of time, Kirznerian entrepreneurship, as a basic feature of human action, needs to always be present to a certain extent during a person’s entire lifetime.

Kirzner and Schumpeter seem to walk quite closely together on the definition of profit, as observed in the previous sections. Both have a clear idea that profit can be generated only in the realm of the uncertainty arising from the flow of real time, which is the necessary framework in which novelty and uncertainty are generated, allowing profit opportunities to appear and to be exploited by entrepreneurial action. In equilibrium all profit opportunities are already exploited.

The vision of profit as the result of entrepreneurial activity is best described by Kirzner (1973, p. 48). Schumpeter simply defined *profit* as a surplus over costs, a difference between receipts and outlay generated by entrepreneurial action (1934, p. 128), adding that interest on capital is a remuneration that should be excluded from profit *stricto sensu* (1928, 266–271).

¹² «The distinction which Schumpeter draws at length between the way men would act in “the accustomed circular flow” on the one hand and when “confronted by a new task” on the other is closely parallel to my own distinction between “Robbinsian” decision-making and entrepreneurial activity» (Kirzner, 1973, pp. 79-80).

Schumpeter therefore aligns with Kirzner in linking profit to entrepreneurial activity; from this perspective, where profit is the difference between proceeds and costs, it can also be negative. In the market economy, each firm or entrepreneur acts in order to maximize profit; however, *motivation* toward a positive profit and *success* in achieving the target are different things. The very nature of the market economy renders the success of all plans impossible (Lachmann, 1973, p. 26). Equilibrium exists only *ex ante*: plans are consistent with expectations and the limited available content of information. But, *ex post*, it is possible to discover that a plan was inadequate to reach its target. Malinvestment can actually happen. Therefore, there is «no such thing [...] as a rate of profit, there are only rates of profit which may differ widely» (Lachmann, 1973, p. 26). Each rate of profit is related to a specific output and the specific combination of goods implemented in order to obtain it. Therefore, it is not possible to define a rate of profit for the economic system.

Since they are generated by the difference between selling prices and purchasing costs, profits cannot arise in an equilibrium context. In the struggle for profit, the entrepreneurial function will give rise to equilibrating forces, but profit will be present to the extent that such equilibrium does not prevail.

Such consideration allows us to turn now to what it seems to be the biggest difference between Schumpeter and Kirzner: the role of entrepreneurs with reference to equilibrium conditions. According to Kirzner (1999, p. 5), «Schumpeter's entrepreneur [...] was essentially disruptive, *destroying the pre-existing state of equilibrium*. My entrepreneur, on the other hand, was responsible for the tendency through which initial conditions of disequilibrium come to be systematically displaced by *equilibrative market competition*». Under this perspective, it seems that the two economists' positions are far apart. For Schumpeter, the starting condition for the study of economic development is equilibrium. Entrepreneurs, bringing out new combinations, break such equilibrium, driving the economic system to a different state. In Kirzner, however, we have the opposite consideration. The starting point is a disequilibrium situation, due to market ignorance; the entrepreneurial role is an equilibrating one. As the entrepreneurial function is alertness to previously unnoticed profit opportunities, it reduces market ignorance, helping individual plans to become more mutually consistent. Therefore, in Kirzner entrepreneurship is an equilibrating force, while according to Schumpeter its very nature is to break with equilibrium, a state in which change is not happening. However, if we look at the role of innovation as conceived by Schumpeter (1939) and closely strictly related with business cycles, we find that, where new combinations initially break with the previous equilibrium state, crisis is identified as a path toward a *new equilibrium* situation (Ferlito, 2013, pp. 67-68). As soon as the entrepreneurial impetus loses its steam in pulling the system away from its previous area of equilibrium, the system embarks on a struggle toward a new equilibrium.

In short, where in Kirzner entrepreneurship is *essentially* an equilibrating force, for Schumpeter, it moves the system away from the previous area of equilibrium while giving rise to a process (business cycle) in which the final phase is the struggle toward a new equilibrium. Therefore, we can observe that for both economists, the entrepreneurial function is the trigger for two processes (the market process in Kirzner, the development and business cycle in Schumpeter) in which equilibrating forces operate. In Kirzner's vision, they consist in the reduction of ignorance driven by entrepreneurial discovery. According to Schumpeter, however, they identify with the liquidation crisis following a boom initiated by entrepreneurial, innovative action.

5. Towards a New Synthesis

In drawing up concluding remarks, it is important to first of all repeat that Schumpeter's and Kirzner's entrepreneurial theories both arose in opposition to neoclassical equilibrium theory. What the two economists brought out from such opposition are two analyses of human behavior driving the economic system in certain directions.

Schumpeter's entrepreneur, a maker and master of change, is a *deus ex machina* for capitalistic economic development. A very specific period of economic history is related to this function: the era of "heroic" leader entrepreneurs characterizes the eighteenth, nineteenth and the beginning of the twentieth centuries. As historical conditions change through *trustification*, the role for entrepreneurs changes too, while *the responsibility* of forging economic development through "new combinations" shifts to research centers and managers.

Kirznerian entrepreneurship, however, is not conceived as a historical matter or a specific characteristic of "superior people." Rather, it is a general feature of human action, consisting in the possibility of setting up a means–ends framework in order to exploit unnoticed profit opportunities. Under this perspective, everybody is potentially entrepreneurial over time and space. Space and time conditions do not change the general features of entrepreneurship, which remains a constant element of human beings' behavior over centuries. Kirznerian entrepreneurs are not the "prime cause" of economic development; rather, through their alertness, they generate the market process through a process of information exchange and therefore ignorance reduction. Alertness becomes an equilibrating force helping economic actors in making their plans mutually consistent.

My perspective is that *both* entrepreneurial ideas can coexist when looking at a new synthetic approach to entrepreneurship. The source of misunderstanding is believed to be that the two economists labelled different concepts with the same word. The Schumpeterian entrepreneur is not incompatible with the Kirznerian entrepreneur. While there exists a level of agreement with the theory of human action described by Kirzner, it seems too weak to fully explain the essence of entrepreneurship. Kirzner's theory can be the first brick in an integrated human action and entrepreneurship theory if the label of the theory as an entrepreneurial theory is renounced to instead be called *alertness theory*. Markets are characterized by ignorance and economic agents define their sets of ends and means consistently with their expectations and the limited content of their knowledge. In doing so, they trigger the market process and the never-ending processes of information exchange and revising plans. They are alert to profit opportunities and they learn from experience. The acquisition of new information, arising from the interaction between the subject and the surrounding reality, generates new knowledge via never-ending interpretative processes.

However, among these economic actors, *special types* can actually arise. The introduction of new combinations and the leadership attitudes do not need to be excluded by Kirzner's model. Schumpeter's entrepreneurs arise from Kirznerian alertness, driving the economic system toward *change*. If alertness is a special attitude arising from the context of Misesian purposeful/human action, new combinations can thus be seen as a subset of that alertness, a special kind of action bringing into the market process, in terms of *change*, something stronger than what was previously known. Similarly, Schumpeterian entrepreneurs are fully consistent with the human action model. They are alert to unnoticed profit opportunities and they need to set up their ends–means frameworks. In doing so, however, the kind of plans and the set of actions they carry out, since they are not theoretically different from all the other kinds of actions, are practically different for the

special consequences they bring into the economic system. In fact, such actions introduce radical discontinuities in the way things are done¹³.

The disruptive character of Schumpeterian entrepreneurs and the coordinative role as described by Kirzner are, therefore, not entirely inconsistent. Looking at the system from the outside, Schumpeter's entrepreneur shows us the importance of technological change for economic evolution. Kirzner's insights, instead, shed light on the working of the economic system from within (that is, profit opportunities arising from ignorance and alertness as the possibility of seizing them) (Kirzner, 1999, p. 16).

It seems that recently Kirzner (1999) became aware of the potential compatibility between the two visions¹⁴. In particular, and this is consistent with my perspective, Kirzner (1999, p. 5) stressed how Schumpeter's view is valid in order to understand «the psychological profile typical of the real-world entrepreneur» and the “creative destruction” which Schumpeter saw as the central and distinguishing feature of the “capitalist” system. Kirzner (1999, p. 12) recognized that alertness requires «boldness, self-confidence, creativity and innovative ability» as described by Schumpeterian entrepreneurship. Moreover, it seems that Kirzner also accepted the special psychological attitude necessary for entrepreneurship typical of Schumpeter's vision¹⁵.

Schumpeterian entrepreneurship characterized by leadership and innovation can be seen as a special action arising from the Kirznerian concept of alertness as related to the Misesian approach to human action, but brought out by special types of humans, entrepreneurs and with radical consequences not simply for the market process but for the economic development process.

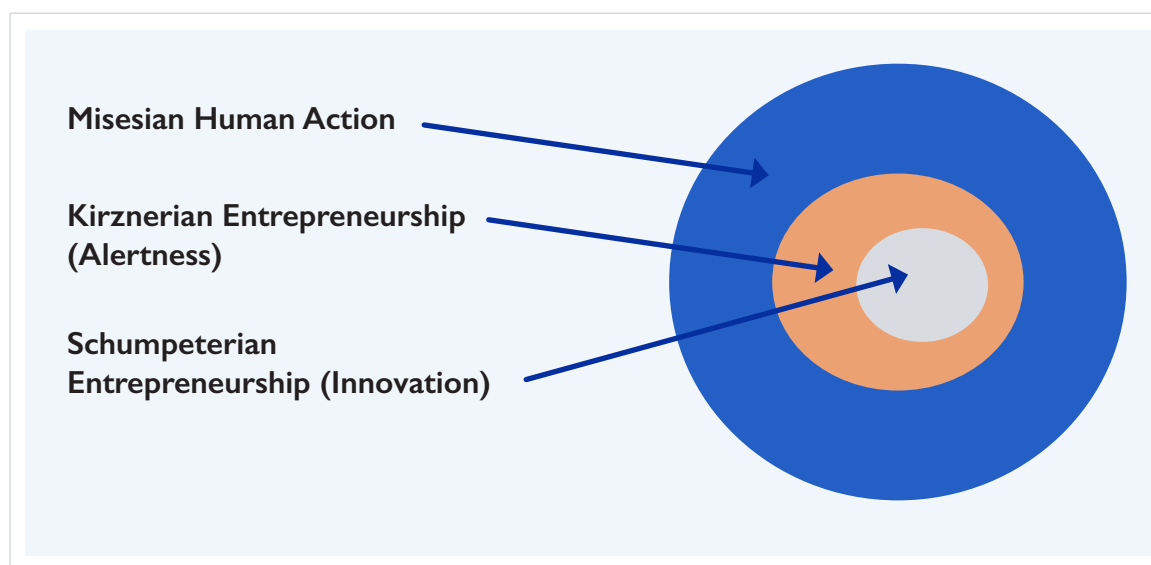
It can be imagined an *alertness* or Kirznerian theory in which human beings, as *homo agens*, define their ends–means framework and their plans. Interaction between these *homo agens* defines the market process, which is characterized by ignorance reduction and plans revision and coordination. Among such plans, some are *entrepreneurial*, disruptive plans (“new combinations”), brought out by Schumpeterian entrepreneurs and defining economic change.

¹³. Kirzner (1992, p. 50) probably moved toward my vision, stating that «entrepreneurship exercised in innovative production tends to generate technological progress».

¹⁴. Kirzner (2008, p. 8) pointed out that the «merely alert entrepreneur [...] was never intended as alternative to the creative, innovative Schumpeterian entrepreneur».

¹⁵. Kirzner (1999, p. 13): «abstract prescience [must] be supported by psychological qualities that encourage one to ignore conventional wisdom, to dismiss the jeers of those deriding what they see as the self-deluded visionary, to disrupt what other have come to see as the comfortable familiarity of the old-fashioned ways of doing things, to ruin rudely and even cruelly the confident expectations of those whose somnolence has led them to expect to continue to make their living as they have for years past».

Figure 1. Human Action, Alertness and Entrepreneurship¹⁶



As represented in Figure 1, both alertness and entrepreneurship are subsets of human action, but they are distinguished by the different set of consequences they bring into the economic system, consequences that can be judged only *ex-post*.

With the help of Horwitz (2019)¹⁷, a final word needs to be spent on how entrepreneurs take their entrepreneurial decisions. Revisitation on the definition of capital with another paper in this series will be present, but here it can be told that, as explained by Lachmann (1956), entrepreneurs deal with capital goods. In Ferlito (2018a, p. 35) capital goods are defined as goods that, in a specific moment in time, are thought to be suitable for generating a certain output when combined with other goods in a production process unfolding over time. It will be the unfolding of the production process that will confirm their suitability as capital goods (Ferlito, 2018b, p. 103). By combining capital goods in order to generate an output, entrepreneurs determine the capital structure of a certain economy.

Which are the guidelines used by entrepreneurs in order to decide which output to try to produce and which goods to combine together into the production process in order to obtain, in time, the desired output? It is believed that the main beacons for them are (profit) expectations and the price system. Horwitz (2019, p. 22) explains that the «fundamental challenge of economic production involves answering the twin questions of “what should be produced?” and “how should we produce it?” The first of the two questions relates to consumer preferences: what is that people wish to buy, or might wish to buy if it were available to them? The second question, which is the one that is often overlooked especially by critics of capitalism, is the harder one: if we are to make this product, which combination of inputs should we use to make it such that we use the least valuable inputs possible? This question is what economists mean by “economic efficiency.”». How do entrepreneurs compare alternative goods and alternative processes of production to determine they are creating value rather than destroying it? Also this subject will be deeply analyzed in another paper of this series, when we will discuss the issue of rational economic calculation.

¹⁶ Firstly presented in Ferlito (2016, p. 55).

¹⁷ A crucial work in re-discovering the role of Ludwig Lachmann as entrepreneurship theorist.

Here it is enough to say that what «enables us to engage in these comparisons of value are market prices determined by the exchange of goods and service against money» (Horwitz, 2019, p. 22). Market prices exist thanks to private property, «which enables people to exchange and form markets, which in turn leads to the emergence of market prices» (Horwitz, 2019, p. 22). Market prices are, thus, the objective synthesis of billions of subjective evaluations, arising from market interactions; thanks to the guidance provided by prices – which give information about consumer preferences and scarcity, in example – entrepreneurs can effectively decide what to do and how. Similarly, market prices allow to determine if a production process generated or destroyed value, thanks to the comparison between outlays and receipts; as Horwitz (2019, p. 23) put it, «monetary calculation of profits and losses provides producers with ex post feedback about the wisdom of their past choices that, without market prices, would be unavailable».

Considering that these decisions and production processes happen in a context of uncertainty generated by the passage of time and by the limited content of information available to each individual, the role of entrepreneurial choices appear even more important (Horwitz, 2019, p. 24). Successes and failures become an important signal for the entire economic community.

6. Conclusion

This paper presented on how although entrepreneurs and entrepreneurship are neglected topics in mainstream economics, important economists like Schumpeter and Kirzner (but also Lachmann) developed interesting theories on the subject. In particular, while Schumpeter sees the entrepreneur as a special human being, a leader able to bring “new combinations” into the economic system, generating the process of creative destruction, while for Kirzner entrepreneurs are individuals that are more able than others in exploiting unnoticed profit opportunities.

My perspective is that *both* entrepreneurial ideas can coexist. My synthesis can be described as follows: markets are characterized by ignorance and economic agents define their sets of ends and means consistently with their expectations and the limited content of their knowledge. In doing so, they trigger the market process and the never-ending processes of information exchange and revising plans. They are alert to profit opportunities, they exploit them and they learn from experience. The acquisition of new information, arising from the interaction between the subject and the surrounding reality, generates new knowledge via never-ending interpretative processes.

Among these *alert* economic actors (Kirzner’s entrepreneurs), *special types* can actually arise. Schumpeter’s entrepreneurs arise from Kirznerian alertness, driving the economic system toward *change*. If alertness is a special attitude arising from the context of Misesian purposeful human action, new combinations can thus be seen as a subset of that alertness, a special kind of action bringing into the market process, in terms of *change*, something stronger than what was previously known. Schumpeterian entrepreneurs are indeed alert to unnoticed profit opportunities and they need to set up their ends–means frameworks. In doing so, however, the kind of plans and the set of actions they carry out, since they are not theoretically different from all the other kinds of actions, are practically different for the special consequences they bring into the economic system. In fact, such actions introduce radical discontinuities in the way things are done.

We can imagine an *alertness* or Kirznerian theory in which human beings, as *homo agens*, define their ends–means framework and their plans. Interaction between these *homo agens* defines the market process, which is characterized by ignorance reduction and plans revision and coordination. Among such plans, some are *entrepreneurial*, disruptive plans (“new combinations”), brought out by Schumpeterian entrepreneurs and defining economic change.

Finally, it is important to observe that entrepreneurial action unfolds in a context of uncertainty and over time. Entrepreneur’s decisions are guided by market prices, which become crucial in judging the success or a failure of an economic enterprise. In this sense, entrepreneurial action becomes a beacon for the entire economic community.

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