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## Entrepreneurship: State of Grace or Basic Feature of Human Action?

### *Schumpeter's Leadership vs. Kirzner's Alertness*

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*ABSTRACT.* Joseph A. Schumpeter developed a very well-known theory of entrepreneurs and entrepreneurship, centred on the concept of 'new combinations'. According to him, innovation and entrepreneurship are destructive elements driving the system beyond an equilibrium position and setting in motion a competitive process, in order to reach a new equilibrium point. Though Austrian, Schumpeter was never a member of the Austrian School of Economics. However, his position as regards entrepreneurship is widely commented on by Austrian School members. In particular, Israel M. Kirzner devoted his research activity to develop an alternative concept of entrepreneurship rooted in Misesian human action and the concept of 'alertness'. This paper aims to analyse and compare the two positions, in an attempt not so much to stress differences but to find possible common paths for further developments of the concept of entrepreneurship.

*RÉSUMÉ.*

*KEYWORDS:* Schumpeter, Kirzner, Entrepreneur, Entrepreneurship, Innovation, Austrian School of Economics.

*MOTS-CLÉS:*

*JEL CODE :* B13, B25, B53, L26, O31, O33.

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## 1. Introduction

Joseph A. Schumpeter developed a very well-known theory of entrepreneurs and entrepreneurship, centred on the concept of 'new combinations', introduced by special human types, entrepreneurs, conceived as *leaders* in the process of change. According to him, innovation and entrepreneurship are destructive elements driving the system beyond an equilibrium position and setting in motion a competitive process, in order to reach a new equilibrium point. Though Austrian, Schumpeter was never a member of the Austrian School of Economics. However, his position about entrepreneurship is widely commented on by Austrian School members. In particular, Israel M. Kirzner devoted his research activity to develop an alternative concept of entrepreneurship rooted in the Misesian human action and in the concept of 'alertness' to previously unnoticed profit opportunities.

We will first describe entrepreneurship theories in Schumpeter and Kirzner (sections. 2 and 3.). In section 4, we will try to focus on differences and similarities between the two economists in order to draw a number of conclusions concerning the possibility of an integrated entrepreneurial theory in section 5.

## 2. Schumpeter: Entrepreneur as Leader

Schumpeter's theory of innovation and entrepreneurship is so famous that it becomes necessary to briefly re-summarize its main points, trying to directly follow Schumpeter's footsteps and, at the same time, to free his perspective from certain clichés. We will focus on the Schumpeterian entrepreneur as described in the first

English translation of *Theorie* (1934), which refers to the second German edition (1926), but we will also remark few differences between this edition and the first version presented in 1911<sup>1</sup>.

First of all, it should be noted that Schumpeter's entrepreneurship vision must be analysed as part of a more global perspective on the process of economic development. In developing this theory, Schumpeter describes the entrepreneurial character only after detailing what development means, its differences compared to the circular flow (and the place of static theory), the emergence of innovations and the role of bankers. The entire first part of Chapter 2 in Schumpeter (1983) is devoted to describe what economic development is and why it cannot be understood with the instruments of circular flow analysis.

Development 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. (Schumpeter, 1983, p. 64).

Such changes, moreover, "are not forced upon [economic life] from without but arise by its own initiative, from within"<sup>2</sup>. Thus, the first important point is that economic development is a movement out from an existing equilibrium condition, a disturbance of such an equilibrium state. After this clarification, introducing the concept of 'new combinations', Schumpeter describes 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 scientifically new discovery and can also exist in 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 of the country in question has not previously entered, whether or not this market has 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 organisation of any industry, such as the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position<sup>3</sup>.

New combinations are, therefore, the essence of economic development.

The third essential element of the economic development process is *credit*. Developing this point in Schumpeter (2005), the author marks an important difference with the Austrian economics tradition, led at that time by Ludwig von Mises<sup>4</sup>. According to Schumpeter (1983, 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 in no way new combinations can be brought out using existing saving. Therefore, there cannot be any economic development without the creation of debt; the Austrian School of Economics, in the same period, developed a business cycle theory arguing that sustainable development is possible only if investments are financed by existing savings<sup>5</sup>. On the contrary, Schumpeter, although admitting that such a development process generates a boom and bust cycle, considers development impossible without what he calls the "creation of purchasing power by banks"<sup>6</sup>. This is one of the strongest statements among Schumpeterian intuitions: the role of entrepreneurs is meaningless

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<sup>1</sup> Thanks to Becker, Knudsen, Swedberg (2011b), an English translation of the central chapters of the 1911 edition of *Theorie* is now available.

<sup>2</sup> Schumpeter (1983, p. 63).

<sup>3</sup> Schumpeter (1983, p. 66). These five types of new combination are a constant element in Schumpeter's writings about entrepreneurship. However, they are clearly inserted into the analysis of economic development only with the second edition of *Theorie*, published in 1926 and translated into English in 1934. These five types of new combination are maintained in an important article, titled *The Entrepreneur*, and published by Schumpeter in 1928 (Schumpeter, 2011a, p. 245). In the 1911 edition, instead, though already mentioned, they are not clearly identified as the effective five types of new combination (Schumpeter, 2011c, pp. 119-120).

<sup>4</sup> As pointed out by McCaffrey (2013b, pp. 29-30), Mises and Schumpeter reciprocally appreciated each other's works on entrepreneurship. However, regarding the role of credit they were in high disagreement. "Mises's approach relies on an entrepreneur-capitalist who draws on savings in order to expand future production, while Schumpeter's innovator-entrepreneur requires bank credit in order to introduce new combinations of the factors of production" (McCaffrey, 2013b, p. 30).

<sup>5</sup> Ferlito (2014), amplifying the analysis in Ferlito (2013), tries to demonstrate that is possible to extend the traditional Austrian Business Cycle Theory with Schumpeterian elements, in order to show that business fluctuations are actually unavoidable.

<sup>6</sup> Schumpeter (1983, p. 73).

without the banker, who is, therefore, at least as important as the entrepreneur in carrying out new combinations, constituting the essence of the development process. Schumpeter is very clear about it:

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. (Schumpeter, 1983, p. 74).

The central role of banker is recognized by Schumpeter with the 1926 edition of *Theorie*, where it is explained before introducing the entrepreneurial function. The attention paid by the Austrian economist to the banker in 1911 is much less. In fact, most of the 2<sup>nd</sup> chapter of *Theorie*, in 1911, is devoted to the description of the entrepreneur as a special human type, as we shall see later. Only toward the end of the chapter, Schumpeter, recognizing that entrepreneurs do not necessarily own the purchasing power needed to carry out new combinations, describes the banker as a *producer of credit* and *creator of money*<sup>7</sup>.

However, new combinations and credit are not enough for the emergence of economic development. A further element is necessary, the one that Schumpeter (1983, p. 74) calls the “fundamental phenomenon of economic development”. In fact, if the carrying out of new combinations can be called ‘enterprise’, “the individuals whose function it is to carry them out [are called] ‘entrepreneurs’”<sup>8</sup>. It is at this point that Schumpeter starts to develop his famous entrepreneur theory. It is therefore clear that ‘entrepreneur’ and ‘capitalists’ are, functionally speaking, very distinct subjects, the former carrying out new combinations, the latter providing (creating) the purchasing power necessary for it.

But the central question is why “is the carrying out of new combinations a special process and the object of a special kind of ‘function’”<sup>9</sup>, the entrepreneurial function? According to Schumpeter, in the realm of circular flow economic subjects are able to promptly and rationally act and react to given circumstances that repeat themselves over time. *Normal* individuals can face such environment. But, when changes and innovations happen, normal individuals need *guidance*<sup>10</sup>. 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”<sup>11</sup>. Entrepreneurs are the special type of persons, with a special behaviour, able to exercise such a guidance.

This is another crucial aspects that can be misunderstood, but about which Schumpeter (1983, pp. 84-91) talks at length: *leadership*. Calling *innovation* the introduction of new combinations, Schumpeterian entrepreneur is rightly identified as *innovator*. The word is not free from ambiguity and misunderstandings. Though scholars often clarifies that innovation is not necessarily a new invention, the risk to identify the entrepreneurial function with the invention of something new is high. But entrepreneur is not the inventor<sup>12</sup>. Entrepreneur is a special type not simply because he carries out new combinations, but also because he, in doing so, masters a development process that is a process of change. Entrepreneurs, introducing new combinations into the economic system, demonstrate to be able to move where normal individuals stop.

According to Schumpeter (1983, pp. 84-87), to move outside the boundaries of the circular flow is difficult for three kinds of reason.

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 he 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.

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<sup>7</sup> Schumpeter (2011c, p. 148).

<sup>8</sup> Schumpeter (1983, p. 74).

<sup>9</sup> Schumpeter (1983, p. 79).

<sup>10</sup> Schumpeter (1983, p. 79).

<sup>11</sup> Schumpeter (1983, p. 81).

<sup>12</sup> Schumpeter (1947, p. 152).

These features need to be further stressed. Innovation is a change in the economic system<sup>13</sup>. Entrepreneur, introducing innovations, is a special human type because such changes cannot be faced and managed by normal individuals. In carrying out new combinations, entrepreneurs move the system outside the equilibrium state; but, moreover, after innovations are introduced, businessmen face the struggle to make the innovation win against 'the old way' to do things, against the social hostility. In this struggle it is not the invention that characterized the entrepreneur but his *leadership*, his ability to master the new situation. This is the reason why Schumpeter (1983, p. 88) stresses that it "is not part of his 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* the things. It is therefore "more by will than by intellect that the leaders fulfil their function, more by "authority", "personal weight", and so forth than by original ideas<sup>14</sup>. And, Schumpeter (1983, p. 88) adds, 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 purposes, in order to prevail that leads to successful deeds – even without particularly brilliant intelligence. (Schumpeter, 2011c, p. 123, our italic).

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 the Kirznerian alertness as a basic feature of human action. We will come back to this in the following sections. Moreover, the emphasis on the *special character* belonging to entrepreneurs is one of the elements that Schumpeter did not change while evolving his vision of entrepreneurship; this feature is highly stressed in the 1911 edition of *Theorie*<sup>15</sup>, in the 1926 edition and is reaffirmed in Schumpeter (2011a)<sup>16</sup>.

We cannot here describe the evolution of Schumpeter's vision and the changes between the 1911 and 1926 editions of his important book<sup>17</sup>. But it is important to note that the analysis of the entrepreneur as a *special type*, dynamic versus static, though much stronger in the first edition of *Theorie*, does not lose its importance. If Schumpeter blunts his tone, his emphasis, it is because, as pointed out by Schumpeter (1983, p. 90f), he wants to clarify that he never had any intention of *glorifying* the entrepreneur, as many readers of the 1911 book were tempted to understand<sup>18</sup>. To avoid further misunderstanding, in Schumpeter the entrepreneur tends to become less 'personal', while the accent shift on the analysis of the entrepreneurial function. However, leadership attitude remains an important aspect also in 1926 and 1928 and even in Schumpeter (2003).

Where does such a vision emerge? It seems in sharp contrast with the development of the neoclassical equilibrium theory, centred on maximizing and perfecting rational economic agents. Undoubtedly, Schumpeter's vision is not outside the general development of Austrian economic analysis; similarities can be found with books by Mises and Hilferding published at the same time<sup>19</sup>. However, Schumpeter cannot be understood without recognizing his relationships not with the Austrian environment but with the German intellectual milieu. As clearly demonstrated by Santarelli, Pesciarelli (1990, pp. 689-692), with particular reference to Schumpeter (2011c), it is possible to find out a strong influence by Friedrich Nietzsche<sup>20</sup>; it is clearly possible to see a parallelism between the Nietzschean contraposition of 'overmen' and 'mass' and the Schumpeterian conflict between 'man of action' (Mann der Tat), the entrepreneur, and static person, which

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<sup>13</sup> Schumpeter (1935, p. 4).

<sup>14</sup> Schumpeter (1983, p. 88).

<sup>15</sup> See Schumpeter (2011c).

<sup>16</sup> As pointed out in Langlois (2002), it is mistaken to believe that the 'old' Schumpeter does not believe anymore in the *personal* function of entrepreneurs.

<sup>17</sup> Refer to Becker, Knudsen, Swedberg (2011a) for an accurate analysis.

<sup>18</sup> See De Vecchi (1993, pp. 32 and 38-39).

<sup>19</sup> See McCaffrey (2013b) and Michaelides, Milios (2005).

<sup>20</sup> "Nietzsche and Schumpeter share a view of the world based on the irreconcilable co-presence on the historical stage of two opposing human types: the one pursuing a set of goals which go far beyond the spirit of the time, the other adapting his behavior to the achievement of a set of goals which are common knowledge at that time. Nietzsche defines these types as the "overmen" and the so-called "mass" or "herd". Overmen symbolize the rejection of any kind of conformism: they are a rare breed striving towards "higher ends" and personifying the antithesis to mediocrity and stagnation." (Santarelli, Pesciarelli, 1990, p. 689).

simply can move into the boundaries of the circular flow<sup>21</sup>. The Nietzschean idea of *will to power* is a good interpretative key in order to understand Schumpeter's entrepreneur motivations<sup>22</sup>.

In fact, even with the 1926 edition, to further mark the special entrepreneurial attitude as belonging only to a few, superior men, Schumpeter (1983, pp. 92-94) explains how the motives behind entrepreneurs' actions are completely different from normal, rational, hedonist human motivations<sup>23</sup>.

First of all, there is the dream and the will to found a private kingdom, usually, though not necessarily, also a dynasty. [...] The nearest approach to medieval lordship possible to modern man. [...]

Then there is the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself. [...]

Finally, there is the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity. [...] Our type seeks out difficulties, changes in order to change, delights in ventures.

The remuneration that makes its way into entrepreneur's pocket is called *profit*, that Schumpeter (1983, p. 128) simply defines as a surplus over costs, a difference between receipts and outlay. But with the word 'outlay' Schumpeter means all the disbursements which the entrepreneur has to make, including the salary for his own labour, the price of the factors of production and the premium for risk. Therefore, profit is not the reward for the entrepreneur labour and it is not related to risk. Schumpeter (2011b, pp. 266-271) more analytically explains that there are several types of income that entrepreneurs can have but that at the same time do not fall into the profit category: interest on capital, the salary for administrative work, revenues on monopoly or patent rights, premium for risk, 'opportunistic profits' arising from seasonal factors. Entrepreneurial profits, instead, are linked with the entrepreneurial function, that is to bring out new combinations<sup>24</sup>. Because of such link between entrepreneurial profit and entrepreneurial function, profit is, by nature, temporary<sup>25</sup>. In fact, under the impulse of profit, "new businesses are continually arising"<sup>26</sup>. Profit expectations, therefore, drive competitors and imitators to enter the world of the new combinations; a complete reorganization of the affected industry happens, squeezing profits until they disappear and a new equilibrium state is reached. However, though temporary, profit exists and it sprouts out from the very nature of the entrepreneurial function, the will and the action necessary to carry out new combinations<sup>27</sup>.

While after the 1926 edition of *Theorie* many economists welcome the Schumpeterian analysis of the entrepreneurial function, they are not able, at the same time, to recognize the theoretical novelty included in such a vision about profit. The majority of the economists remain linked to the typical neoclassical connection between profit and risk; this is the case, for example, of Del Vecchio and Pantaleoni<sup>28</sup>.

It is very well-known that Schumpeter's vision of entrepreneurship evolved through the decades. The emphasis on the entrepreneur and his exceptional character, grounded on will and leadership, gave way to a deeper analysis of the entrepreneurial function (1926), while the carrying out of new combinations gradually lost its link with the entrepreneur *as a person*. Living the passage from the 'heroic' stage of capitalism hallmarked by individual entrepreneurs to the next one characterized by the emergence of trusts, in Schumpeter (2005) new combinations are still present, named innovations, and innovations become central to the business cycle analysis. Entrepreneurs are still there, but Schumpeter gradually recognizes the declining importance of the entrepreneurial function in the age of trusts<sup>29</sup>. Schumpeter is not renouncing his view of entrepreneurs<sup>30</sup>; he is simply observing that the general economic scenario is changing<sup>31</sup>.

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<sup>21</sup> Becker, Knudsen, Swedberg (2011a, p. 9).

<sup>22</sup> The concept of *creative destruction* too, firstly introduced in economics by Werner Sombart, reaches Schumpeter via Nietzsche and his passion for Indian culture. On the 'journey' of creative destruction principle from Asian cultures to Nietzsche and from him to Sombart and Schumpeter see in particular Reinert, Reinert (2006).

<sup>23</sup> Also for Nietzsche, overman motivations are not rational. Or, better, for both Schumpeter and Nietzsche entrepreneurs and overmen motivations seems to be not rational, while for them are perfectly 'reasonable' in the will to overcome the limits set by the surrounding environment. Again, following Santarelli, Pesciarelli (1990, p. 691), the dualism between normal motivations and overmen motives can be explained only referring to the will to power, "the principle that governs the history of the world".

<sup>24</sup> Schumpeter (2011b, pp. 270-271).

<sup>25</sup> Schumpeter (1983, p. 132).

<sup>26</sup> Schumpeter (1983, p. 131).

<sup>27</sup> Schumpeter (1983, p. 132).

<sup>28</sup> See Del Vecchio (1928) and Santarelli (1984, pp. 515-516).

<sup>29</sup> One of Schumpeter's students, Paolo Sylos Labini, started his analysis where Schumpeter stopped: the role of innovations in an economic era dominated by trusts. See in particular Sylos Labini (1962, 1984 and 1993). See also Ferlito (2011).

<sup>30</sup> Schumpeter (1947, p. 151) is still talking about entrepreneur and his function as "simply the doing of new things or the doing of things that are already being done in a new way (innovation)".

<sup>31</sup> Schumpeter (1947, p. 157) asks: "does the importance of the entrepreneurial function decline as time goes on? There are serious reasons for believing that it does".

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, 2005, p. 109).

Such an observation is a bridge towards what in Schumpeter (2003, pp. 131-134) is called the *obsolescence of the entrepreneurial function*. Schumpeter (2003, p. 132) observes that the peculiar functions of “getting things done”, the personal will, is losing importance because of two orders of reasons. On one hand, the task of innovation is becoming the activity of trained specialists. On the other hand, the social environment is becoming accustomed to economic change and therefore the resistance opposed to it is 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, 2003, pp. 133-134).

The decline of the entrepreneurial function and entrepreneurs, according to Schumpeter, opened the doors to the end of the capitalism as we know it. Economic progress becomes depersonalized and automatized, while committees and planning offices replace individual action. The result, Schumpeter (2003, p. 134) stresses, may not differ from what Marxist scientists describe: *de facto* socialism<sup>32</sup>.

### 3. Kirzner: Entrepreneur’s Alertness to Profit Opportunities

While *Theorie der wirtschaftlichen Entwicklung* is the book that has to be studied in order to grasp the Schumpeterian vision of the entrepreneur, Kirzner’s central work on the topic is *Competition and Entrepreneurship*<sup>33</sup>. In a way, the starting point for the authors is not radically different. In the first chapter of *Theorie*, Schumpeter describes the circular flow, a static economic system ‘ruled’ by Walrasian scientific laws; then the Austrian economist shifts his focus, explaining that such a system is inadequate to grasp the dynamic nature of capitalistic development. In a similar way, Kirzner starts by explaining why the neoclassical static mainstream is not the proper paradigm to analyse the competitive process<sup>34</sup>. In fact, Kirzner’s theory of entrepreneurship is part of a more general reflection devoted to competition as a process (the market process), in which entrepreneurs play a key role.

Kirzner’s starting point is a “dissatisfaction<sup>35</sup> 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*”<sup>36</sup>. According to the mainstream, in fact, the main task of price theory is to bring out a set of prices and quantities consistent with equilibrium conditions<sup>37</sup>. On the contrary, the Austrian economist tries 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. (Kirzner, 1973, pp. 6-7).

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<sup>32</sup> McCaffrey (2009) is an interesting attempt to start from such analysis of the capitalism decline in order to drive it towards different conclusions.

<sup>33</sup> Kirzner (1973).

<sup>34</sup> Kirzner (2000, pp. 6-11).

<sup>35</sup> See also Kirzner (1992, pp. 40-41).

<sup>36</sup> Kirzner (1973, p. 1).

<sup>37</sup> 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”.

The ‘original sin’ of the neoclassical mainstream, in Kirzner’s view, was 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, moreover, they are price-takers<sup>38</sup>: the players are so many that nobody can actually influence the price level. Moreover, technology, tastes and preferences, together with expectations, are given and they are not subject to internal impulse toward modification. Finally, in the neoclassical perfect competition, the time dimension is missing. It is self-evident that such definition describes “the opposite of its meaning either in ordinary language or in common sense economic discussions of competition”<sup>39</sup>.

In order to develop his entrepreneurial theory, therefore, Kirzner first seeks to redesign a market theory to set up the framework in which entrepreneurs act and move<sup>40</sup>. This is probably the Kirzner’s major contribution to the Austrian School of Economics: to build upon Mises’s<sup>41</sup> and Hayek’s<sup>42</sup> legacy an organic theory of the market as an economic *process*<sup>43</sup>. Consumers, entrepreneur-producers and resource owners are the players in the market; the latter, in turn, is where their interacting decisions, during any period of time, take place. Every player has his own content of (limited) knowledge, tastes and expectations. Depending on their knowledge, tastes and expectations, the players set up their action decisions, or plans<sup>44</sup>. Since, in order to carry out their plans, individuals need to interact, it is only through interaction and in time that content of information will be modified and eventually a revision of decisions can happen.

During the given period of time, exposure to the decisions of others communicates some of the information these 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 opportunities<sup>45</sup>. 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, then, market process is built up by “this series of systematic changes in the interconnected network of market decisions”<sup>46</sup>. Therefore, it is not possible to conceive a market process in the realm of perfect knowledge<sup>47</sup>. 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 or in *real time*<sup>48</sup>. 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 explains the *competitive nature* of such a process: since from one period of market ignorance to the next one, 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<sup>49</sup>. When the incentive to offer more attractive opportunities stops, the competitive process stops, too<sup>50</sup>. In a situation of market equilibrium, such as the one described by the neoclassical theory of perfect competition, there is no more room for competition at all.

In the description of 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) introduces a special group of

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<sup>38</sup> As stated in Kirzner (2000, p. 13), in such a system rivalry, which is the essence of competition, is absent.

<sup>39</sup> O’Driscoll, Rizzo (1996, p. 124).

<sup>40</sup> Kirzner (1963, p. 3).

<sup>41</sup> In particular referring to the concept of human action as purposeful action.

<sup>42</sup> In particular with regard to the theory of information transmission and coordination in the market via price mechanism.

<sup>43</sup> Kirzner (1997, p. 61). It is important to note that such development inside the Austrian School is due not only to Kirzner but to Ludwig M. Lachmann too. See in particular Lachmann (1986).

<sup>44</sup> In this sense, *ex ante* each actor is always in an equilibrium position. That means that, *ex ante*, the plan decision is always consistent with the temporary objectives and the content of information. See Hülsmann (2000).

<sup>45</sup> Also Schumpeter (1947, p. 157) emphasizes the entrepreneurial attention to profit opportunities, but with 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.

<sup>46</sup> Kirzner (1973, p. 10).

<sup>47</sup> “For Hayek the equilibrating process is thus one during which market participants acquire bet”

<sup>48</sup> On the difference between real time (as described by the Austrian School of Economics) and neoclassical Newtonian time, see Ferlito (2013, pp. 37-38) and O’Driscoll, Rizzo (1996, pp. 82-91).

<sup>49</sup> Kirzner (1973, p. 12).

<sup>50</sup> The neoclassical equilibrium theory, instead, systematically ignore the “dynamic rivalry” constituting competition; Kirzner (1997, p. 68).



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*”<sup>51</sup>. 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<sup>52</sup>: since *entrepreneurship* is *alertness* to profit opportunities deriving from market ignorance, and the market process is the set of plans revisions following the modification of knowledge, the two concept are intrinsically bounded.

It is only after the brief introduction of the concept of entrepreneurship in the realm of the market process that Kirzner moves on detailing his perspective about the entrepreneur. The first important note that the Austrian economist brings out is that entrepreneurship is related to human action and is therefore present, potentially, in each individual<sup>53</sup>. In particular, as Kirzner developed the market process notion in opposition to equilibrium approach, the author opposes entrepreneurial activity to economizing and maximizing functions (as described in Robbins’s *Essay on the Nature and Significance of Economic Science*)<sup>54</sup>.

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 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 up by Kirzner is that, in such 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 goes back to the greatest Mises’s intuition, the concept of *human action*<sup>55</sup>. 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-mean 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, the Misesian *homo agens* can *also* identify which ends to strive for and which means are available. This is possible because we actually “can *imagine* the future, even a non-existent, unknowable future”<sup>56</sup>. Instead, economizing behaviour does not take into account the process to identify ends and means. It is at this point that Kirzner clearly introduces his famous concept of *alertness*<sup>57</sup> to “possibly newly worthwhile goals and to possibly newly available resources”<sup>58</sup>; such alertness is what is labelled the entrepreneurial element in human

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<sup>51</sup> Kirzner (1973, p. 14).

<sup>52</sup> Kirzner (1973, p. 15).

<sup>53</sup> Kirzner (1973, p. 31).

<sup>54</sup> For an earlier and detailed contraposition of Robbinsian economizing agent and Misesian homo agens see Kirzner (1976, pp. 108-185).

<sup>55</sup> Mises (1998). The best recent synthesis about entrepreneurship as a basic feature of human action is in Huerta de Soto (2010, pp. 15-48).

<sup>56</sup> Kirzner (1992, p. 25).

<sup>57</sup> 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.

<sup>58</sup> Kirzner (1973, p. 35).

decision-making. If entrepreneurship is alertness<sup>59</sup>, thus, 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<sup>60</sup>. 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 derives his concept of *pure entrepreneur*. As for Schumpeter the pure entrepreneur’s action is to bring out new combinations, for Kirzner he is “a decision-maker whose *entire* role arises out of his alertness to hitherto unnoticed opportunities”<sup>61</sup>. For both the Austrian economists, in fact, entrepreneurship is completely independent from the ownership of the means of production; entrepreneurial function is, instead, strictly related with a special attitude: introducing new combination (action) for Schumpeter, alertness (pre-action) for Kirzner. Regarding alertness, however, a clarification becomes necessary: Kirznerian entrepreneur does *not* possess a greater knowledge; on the contrary, alertness is defined as “the “*knowledge*” of where to find market data”<sup>62</sup>. Therefore, the Kirznerian type of entrepreneurship is in no way related with a certain kind of superiority, but consists *only* in ““knowing where to look for knowledge’ rather than knowledge of substantive market information”<sup>63</sup>; this is the reason why Kirzner does not label this attitude knowledge but alertness.

The most distinctive feature of Kirznerian entrepreneurial function is to move the market from a disequilibrium status toward equilibrium<sup>64</sup>. The starting point of human action, in fact, is always a state of disequilibrium, characterized by market ignorance. As we already noticed, it is through interaction in the market that knowledge can be transmitted and acquired, bringing out plans revisions. Entrepreneurial alertness allows such changes to happen and, therefore, reducing market-ignorance and driving plans toward mutual compatibility, it is an *equilibrating* force<sup>65</sup>. 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 the different market actors<sup>66</sup>. It is only in disequilibrium that profit opportunities actually exist and can be discovered by entrepreneurial alertness<sup>67</sup>. In this sense, alertness allows discovery and discovery plays an equilibrating role, reducing market-ignorance<sup>68</sup>.

Finally, as for Schumpeter entrepreneurial profit comes out from the essence of entrepreneurial function (introducing new combinations), for Kirzner it is a consequence of alertness.

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<sup>59</sup> As stated in Huerta de Soto (2010, p. 11), the term entrepreneur “derive[s] etymologically from the Latin verb *inprehendo-endi-ensum*, which means to discover, to see, to perceive, to realize, to attain”.

<sup>60</sup> Kirzner (1973, p. 36).

<sup>61</sup> Kirzner (1973, p. 39). Entrepreneurship consists “in the perception of previously unnoticed profit opportunities, where “opportunities” are essentially synonymous with arbitrage possibilities. The entrepreneur is “alert” to these opportunities, and his alertness enables him profitably to discover them”. (McCaffrey, 2013a, p. 2).

<sup>62</sup> Kirzner (1973, p. 67).

<sup>63</sup> Kirzner (1973, p. 68).

<sup>64</sup> Kirzner (1973, pp. 69-75).

<sup>65</sup> “For Hayek the equilibrating process is thus one during which market participants acquire better mutual information concerning the plans being made by fellow market participants. For Mises this process is driven by the daring, imaginative, speculative actions of entrepreneurs who see opportunities for pure profit in the conditions of disequilibrium”. (Kirzner, 2000, p. 13).

<sup>66</sup> 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).

<sup>67</sup> “For Austrians [...] 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).

<sup>68</sup> Kirzner (1997, p. 68).

The pure entrepreneur [...] proceeds by his alertness to discover and exploit situation 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 set 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. (Kirzner, 1973, p. 48).

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

#### 4. A Comparison: Common Elements and Differences

It is now time to see if there are elements to reconcile Schumpeter's and Kirzner's visions, or, at least, if in their theories we can find common features to reduce the gap that seems to separate the two Austrian economists<sup>69</sup>. It seems to us, in fact, that it would not be useless to try to build a synthesis approach<sup>70</sup>.

As we already had occasion to notice, both Schumpeter and Kirzner start 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 (1998, pp. 245-251) calls the evenly rotating economy), an economic system which, repeating itself, can be studied with the static economics approach. However, Schumpeter claims 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? (Schumpeter, 1983, pp. 61-62).

In a similar way, Kirzner does not deny *in toto* validity for the general economic equilibrium approach, but he judges it not enough for the analysis of the market approach. The first common element that thus needs to be stressed is the dissatisfaction with the static neoclassical approach; it is such dissatisfaction that moves both authors toward dynamic theories. And it is in the realm of these dynamic theories that Schumpeter and Kirzner give life to their entrepreneurs.

Such dissatisfaction is used by the two economists to move towards dynamic theories. However, such theories are different: development theory centred on the carrying out of new combination for Schumpeter, dynamic market process centred on knowledge and market ignorance reduction for Kirzner. As we shall see, Schumpeterian development theory is the analysis of economic change dynamic built on the role of entrepreneurs-innovator as special human types. Kirznerian market process, on the contrary, is carried out by human action that does not require leaders or special human beings.

In any case, in both development theory and market process theory, entrepreneurs play a crucial role. Both Schumpeterian and Kirznerian entrepreneurs arise as human types opposed to something else. We know that for Schumpeter entrepreneurs are special human types with a peculiar function; as we already pointed out, Schumpeterian entrepreneurs not only bring out new combinations, driving economic change; they are, also and above all, leaders able to master economic change, to dare where normal individuals stop, facing social and economic opposition and finally winning their challenge. Such special human type is opposed to normal individuals, the static ones, who can only promptly react to well-known economic conditions. We can consider the static type analysed by Schumpeter as the Robbinsian economizing man to which Kirzner opposes his homo

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<sup>69</sup> Kirzner himself is constantly concerned about the comparison between his view and the Schumpeter's one. See Kirzner (1973, pp. 79-81; 1999; 2008).

<sup>70</sup> An interesting 'fusionist' approach is presented in Mathews (2006).

agens<sup>71</sup>. If the economizing man can simply take rational decisions before 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”<sup>72</sup>.

At this point we must insert a big ‘but’. Even if we have to recognize both Schumpeterian innovator and Kirznerian homo agens as opposed to the Robbinsian static economizing man, the degree at which they are opposed is different. Schumpeter is talking about two actually existing kind of men, Kirzner, instead, is explaining two facets of a process. For the older economist, entrepreneur leader is a different human being, opposed to static men; he is talking of two different categories of beings. On the contrary, in Kirzner the opposition 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 analyse his decision in orthodox Robbinsian allocation-economizing terms”<sup>73</sup>. This means that Kirzner is not dividing two kinds of human beings, but two kinds of human actions. Each acting man 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 consequence* of such identification. However, to mark his difference with the neoclassical paradigm, Kirzner explains that ends and means are not given once ad forever; time flows, interaction and alertness can force to revise previous frameworks, bringing out new ones with different and new economizing decisions.

With regard to this point, one more thing should be noted. For Schumpeter *not* everybody is potentially an entrepreneur. Leadership and propensity to change are features of a specific human type, opposed to the static one. For Kirzner, instead, entrepreneurship as alertness to unnoticed profit opportunities is potentially present in every man. In this sense, as explained in Huerta de Soto (2010), 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 anyway a necessary element for human action. Moreover, while Schumpeterian entrepreneurship, as attitude to change, is temporary by nature and, in the same man, will exhaust its power after a certain period of time, Kirznerian entrepreneurship, as basic feature of human action, needs to be always present, at a certain extent, during the life stream.

Turning now to what it seems to be the biggest difference between Schumpeter and Kirzner, we have to talk about the role of entrepreneurs with reference to equilibrium condition.

Schumpeter’s entrepreneur, I pointed out, 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 systematically to be displaced by *equilibrative* market competition. (Kirzner, 1999, p. 5).

Under this perspective, it seems that the two economists’ positions are distant. For Schumpeter, the starting condition for the study of economic development is equilibrium. Entrepreneurs, bringing out new combinations, break such equilibrium, moving the economic system somewhere else. In Kirzner, instead, we have the opposite consideration. The starting point is a disequilibrium situation, due to market ignorance; entrepreneurial role is an equilibrating one. As 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, understood as a system in which change is not happening. However, if we look at the role of innovation as conceived by Schumpeter (2005), strictly related with the business cycles, we find out that, if initially new combinations break with the previous equilibrium state, crisis is identified as a path toward a *new* equilibrium situation<sup>74</sup>. For Schumpeter, the wave pattern (cycle) is set in motion by innovations. He starts his analysis assuming that we set off from a situation of perfect static equilibrium in which assumptions of perfect competition, constant population, lack of savings and everything needed to meet the requirements of the circular flow<sup>75</sup> (Schumpeter calls such a situation of equilibrium the ‘theoretical standard’<sup>76</sup>) hold true. It is also assumed that, in the capitalist society model, there will always be the possibility of new combinations and people capable and willing to implement them (their motivation is the prospect of profit). Some people, then, introduce innovation with money borrowed from a bank. Then “other entrepreneurs follow, after them still others in

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<sup>71</sup> “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).

<sup>72</sup> Kirzner (1973, p. 34).

<sup>73</sup> Kirzner (1973, p. 34).

<sup>74</sup> As explained in Ferlito (2013, pp. 67-68)

<sup>75</sup> Schumpeter (2008, pp. 132-133).

<sup>76</sup> Schumpeter (2008, pp. 29-38).

increasing number, in the path of innovation, which becomes progressively smoothed for successors by accumulating experience and vanishing obstacles<sup>77</sup>. Schumpeter assumes that entrepreneurs immediately spend their deposits, except for a minimum reserve. Secondly, since there are no unused resources at the outset (given the circular flow hypothesis), the prices of production factors will increase, as well as monetary incomes and the interest rate. Thirdly, revenue will also increase, in line with the expenditure by entrepreneurs in investment goods, alongside those of workers, momentarily employed with higher wages, and those of everyone receiving all those higher payments<sup>78</sup>. However, up to this point, it is legitimate to assume that there has not yet been an increase in production<sup>79</sup>. This is what happens until the plant of the first entrepreneur begins to run<sup>80</sup>. “Then the scene begins to change”<sup>81</sup>. The total output of consumer goods increases. However, such new goods, according to Schumpeter, enter the market too quickly to be absorbed smoothly. In particular, the old enterprises and the imitators have several possible scenarios before them, but there is no fixed rule: some become part of the new scenarios, others close because they are unable to adapt, others still seek rationalization<sup>82</sup>. The competitive advantage of the driving company tends to fade, since, as the products progressively come on to the market and the debt repayments quantitatively increase in importance, entrepreneurial activity tends to diminish to the point of disappearing altogether<sup>83</sup>. As soon as entrepreneurial impetus loses steam, pulling the system away from its previous area of equilibrium, the system embarks on a struggle towards a new equilibrium<sup>84</sup>.

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

Coming to the methodological perspective, instead, Schumpeter and Kirzner are children of two different approaches. While Kirzner is *fully* part of the Austrian tradition in economics, Schumpeter cannot be considered part of any school, as he did not generate one. If influences on Schumpeter should be found, they need to be sought in some members of the German historical school<sup>85</sup>: Sombart, Weber and, in particular, his great friends Arthur Spiethoff<sup>86</sup>. Following Spiethoff and Sombart Schumpeter builds a *historically conditioned theory*<sup>87</sup>. Schumpeter’s love for history is well-known<sup>88</sup>; but what matters here is the kind of validity that the author gives to his entrepreneurial theory. Schumpeter is not interested in bringing out universally valid economic laws; rather, his attempt is to describe the economic and social evolution *in the historical time*. Schumpeterian entrepreneur, thus, plays his role in a well determined historical context; and, in fact, moving from *Theorie* to *Business Cycles* and, finally, *Capitalism, Socialism and Democracy*, Schumpeter does not substantially change his description of entrepreneurship, but he is conscious that historical role of entrepreneurs *as persons* is changing<sup>89</sup>. In Kirzner, instead, such historical context is missing. Following Misesian praxeology<sup>90</sup>, his attempt is to identify ‘universal’ laws of human action<sup>91</sup>, elements that remain constant as natural part of human behaviour<sup>92</sup>. Kirznerian entrepreneurship is not a historical phenomenon, responsible for a specific stage of economic development, like instead it is Schumpeterian *personal* entrepreneur. To debate who is right is not necessary: talking about entrepreneurship, Schumpeter and Kirzner are describing two different things. Their methodological approach is consistent with their vision; then, in a sense, they are both right.

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<sup>77</sup> Schumpeter (2008, pp. 133-134).

<sup>78</sup> Schumpeter (2008, p. 134).

<sup>79</sup> Schumpeter (2008, p. 135).

<sup>80</sup> Schumpeter (2008, p. 136).

<sup>81</sup> Schumpeter (2008, p. 136).

<sup>82</sup> Schumpeter (2008, pp. 137-138).

<sup>83</sup> Schumpeter (2008, p. 138).

<sup>84</sup> Schumpeter (2008, p. 142).

<sup>85</sup> See Shionoya (2005) and Michaelides, Milios (2009).

<sup>86</sup> Who was responsible for his appointment at Bonn university in 1925. On the influence of Spiethoff on Schumpeter see Kurz (2010) and Caporali (2010).

<sup>87</sup> See Sombart (1929) and Spiethoff (1952, 1953, 1970). See also Gioia (1996, 1997).

<sup>88</sup> See Schumpeter (2006, pp. 10-11).

<sup>89</sup> On the historical specificity of Schumpeterian entrepreneurship, see Ebner (2006, pp. 324-328).

<sup>90</sup> Praxeology “takes as its fundamental premise the existence of human action. Once it is demonstrated that human action is a necessary attribute of the existence of human beings, the rest of praxeology (and its subdivision, economic theory) consists of the elaboration of the logical implications of the concept of action”. (Rothbard, 2004, p. 72).

<sup>91</sup> Like human action as purposeful action or the law of marginal utility.

<sup>92</sup> For a recent interesting perspective on the relationship between history and theory inside the Austrian School see Boettke, Horwitz, Prychitko (2002).

## 5. Concluding remarks

In drawing up our concluding remarks, we wish to repeat first of all that Schumpeter's and Kirzner's entrepreneurial theories both arise in opposition to neoclassical equilibrium theory. What the two economists bring out from such opposition are two analyses of human behaviour driving the economic system towards certain directions.

Schumpeter's entrepreneur, maker and master of change, is a *deus ex machina* for capitalistic economic development. A very specific period of economic history is related with his function: the era of 'heroic' leader entrepreneurs characterizing 18<sup>th</sup>, 19<sup>th</sup> and the beginning of 20<sup>th</sup> centuries. As historical conditions change (trustification), the role of entrepreneurs change too, while *the responsibility* of forging economic development through 'new combinations' shift on research centres and managers.

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

Our perspective is that *both* entrepreneurial ideas can coexist in economic theory. The source of misunderstanding, we believe, is that the two Austrian economists label with the same word different concepts. Schumpeterian entrepreneur is not incompatible with the Kirznerian one. We fully agree with the theory of human action described by Kirzner, but it seems too weak to fully understand the essence of entrepreneurship. Kirzner theory can be the first brick for an integrated human action and entrepreneurship theory if we renounce to label it as entrepreneurial theory but simply *alertness theory*. Market are characterized by ignorance and economic agents defines their sets of ends and means consistently with their expectations and the limited content of knowledge. In doing so, they trig the market process and the never-ending process of information exchange and plans revision. They are alert to profit opportunities and they learn from experience.

However, among these economic actors, *special types* can actually arise. The introduction of new combinations and the leadership attitude do not need to be excluded by Kirzner's model. Schumpeter's entrepreneurs arise from Kirznerian alertness, driving the economic system towards *change*. New combinations can be seen, thus, as a sub-set of the general human action, a special kind of actions bringing into the market process, in terms of *change*, something stronger that what is previously known. Similarly, Schumpeterian entrepreneurs are fully consistent with 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, not being 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 to do things<sup>93</sup>.

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 essence of capitalism as continual technological change. Kirzner's insights, instead, enlighten the working of the capitalistic system from the inside (the arise of profit opportunities from ignorance and alertness as possibility to crab them)<sup>94</sup>.

It seems that recently Kirzner (1999) became aware of the potential 'cooperation' between the two visions<sup>95</sup>. In particular, and this is consistent with our view, Kirzner (1999, p. 5) stresses 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 sees as the central and distinguishing feature of the capitalist system". Kirzner (1999, p. 12) recognizes that alertness requires "boldness, self-confidence, creativity and innovative ability" as Schumpeterian entrepreneurship. Moreover it seems that the Austrian economists also accepts the special psychological attitude necessary for entrepreneurship typical of the Schumpeter's vision<sup>96</sup>.

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<sup>93</sup> Kirzner (1992, p. 50) seems to move toward our vision, stating that "entrepreneurship exercised in innovative production tents to generate technological progress."

<sup>94</sup> Kirzner (1999, p. 16).

<sup>95</sup> Kirzner (2008, p. 8) points out that the "merely alert" entrepreneur [...] was never intended as *alternative* to the creative, innovative Schumpeterian entrepreneur". Bostaph (2013), in his Schumpeter vs. Kirzner analysis, seems not to be aware of these latest Kirzner's statements, suggesting the possibility of a compatible view between the two economists.

<sup>96</sup> 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

In conclusion, Schumpeterian entrepreneurship (characterized by leadership and innovation) can be seen as a special action arising from the Austrian (Kirznerian) concept of human action, but brought out by special human types, entrepreneurs, with radical consequences not simply for the market process but for the economic development process.

We can imagine an *alertness* (Kirznerian) theory in which human beings, as homo agens, define their ends-means framework and their plans. Interaction between these homo agens is defining market process, 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.

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the confident expectations of those whose somnolence has led them to expect to continue to make their living as they have for years past”.

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