THEORY AND METHOD IN CONTEMPORARY INTERPRETATIONS OF THE MARKET PROCESS

by

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A Dissertation
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ABSTRACT

THEORY AND METHOD IN CONTEMPORARY INTERPRETATIONS OF THE MARKET PROCESS

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One of the central elements of the contemporary Austrian School, usually taken to begin with the South Royalton conference, has been extension and critical examination of the theory of the market process. One theme of those investigations has been trying to understand the nature and significance of individual subjective experiences of the operations of the market process. First, are these experiences important to understanding the market process at all? If so, what are the mechanisms by which they enter into the operation of market activity, and what might be the general content of those experiences? How do any of these factors relate to the theories of the market found in Mises, Hayek, or Kirzner, and why, contrary to the standard Whig approach of economics, should we be concerned with those relationships? The three chapters here explore some elements of each theme.
The first chapter, “Alertness and Interpretation: Kirznerian Entrepreneurship and Culture Reconsidered,” examines the literature on the impact of actors’ cultural framework on their faculty of entrepreneurial alertness, and tries to contribute to the advancement of the project of understanding the cultural influences on the market process. Specifically, I argue that while the current work that tries to incorporate the cultural context in which real-world entrepreneurial behavior takes places has a productive understanding of alertness as channeled or filtered by that context, treating this filtering as the primary element of that interaction stops too short, and overlooks the importance of the process by which entrepreneurs select from the myriad technologically possible ways to exploit the disequilibrium situation they encounter.

The second chapter, “The Personal Nature of the Market,” begins from a fragment contained in Max Weber’s Economy and Society to motivate a discussion of the way individuals experience the market process, in which Weber claims that the market is a fundamentally impersonal force in social relations. This chapter challenges this claim, arguing that rather than a space where little is discussed other than prices and quantities, the market is an important area of human social interaction which is experienced by participants as potentially personal, and seeks to identify a few candidate mechanisms by which this occurs. Drawing upon studies of the sociology of consumption, potential mechanisms identified include the personal relationships formed by ongoing service transactions, and the personalization by consumers of their relationships with product brands.
The third chapter, “Debate and the Informal Construction of a Scientific Tradition: A Reconstruction of the Equilibration Debate,” provides a rational reconstruction of the debate between Israel Kirzner and Ludwig Lachmann, and their students, over the tendency of the market process to equilibrate the market, treating this debate as a continuation of the central role of debate in the development of the Austrian School as a distinctive line of inquiry within economic science. Understanding this debate requires an appreciation of the particular way in which members of the contemporary Austrian community relate to the ideas of Austrian Economics, in particular seeing it as a tradition with internal continuity and a wide, even plenary, scope of application. This chapter also examines the debate itself, and tries to explain its failure to reach a resolution within the community.
ALERTNESS AND INTERPRETATION: KIRZNERIAN ENTREPRENEURSHIP AND CULTURE RECONSIDERED

Since its publication in 1973, Israel Kirzner’s *Competition and Entrepreneurship* has been a focal work among economists in the Austrian tradition when discussing theories of entrepreneurship and the entrepreneurial market process. The book’s basic insight that the actions of entrepreneurs exercising the faculty of alertness provides a mechanism by which prices can be brought into equilibrium has become a fundamental element in understanding the theoretical properties of the market process. One sign of a profoundly important work within a discipline is its production of a myriad of potential avenues of further research, and here *Competition and Entrepreneurship* is a paradigmatic example. Among the questions considered by subsequent work has been what the real-world appearance of alertness-displaying entrepreneurship might look like, such as considered by scholars of entrepreneurship studies; questions regarding the core theoretical framework, such as those expanding the theory or seeking to extend its insights to areas such as institutional development not originally considered; and a lively debate on whether the theory described accurately portrays entrepreneurs and the results of their action in the market at all.

The focus of this chapter, however, will be on writers working within the overall picture of the market process present in Kirzner, and have asked questions of the second type above: seeking to expand our understanding of how and when the quality of
alertness operates within the market process. As a consequence of this project, the intentionally ‘thin’ description of the nature of alertness and the alert individual present in Kirzner’s original description has been subject to significant ‘thickening’ to imbue entrepreneurs with other qualities deemed essential to understanding instances of real-world entrepreneurial activity. Among the purported insufficiencies in the original conception include a lack of room for the operation of uncertainty, a critique found for instances in Hazlitt (1974), or more recently Salerno (2008) and Foss and Klein (2010). Another line of critique has focused on the absence of culture from the entrepreneur, a critique present in Lavoie (1991, 1994b) and Lavoie and Chamlee-Wright (2000), among others.

These attempts to expand the basic Kirznerian framework outwards from a deceptively simple modification to the neoclassical theory of economic action towards an understanding of entrepreneurship, and entrepreneurial alertness, operate in real-world individuals has been responded to by Kirzner himself, who by and large accepts that real-world individuals do face uncertainty, and are embedded in cultural contexts, while stressing that these factors are additional to the foundational role of alertness, and so occupy a subsidiary importance. In this subsidiary role, one of the most common ways to operationalize the role of culture in entrepreneurial activity is for the cultural framework within which an alert actor operates to serve as a determinate of what she will be alert to. The idea of culturally-directed alertness gives to culture a pure filtering view, omitting the role culture plays in shaping the nature of the opportunity identified by the alertness itself. This chapter offers an approach to viewing the interaction of culture and
entrepreneurial alertness that includes this omitted aspect, rejecting the pure filtering view. To do so, the chapter will proceed as follows: Section I summarizes the core Kirznerian theory of entrepreneurship and some of the main critiques to that theory. Section II discusses the cultural extensions of the theory, and explains how scholars working in this line have treated culture, arguing that they tend to adopt a pure filtering view. The alternative view, based on an understanding of the need for interpretation even once a disequilibrium situation has been identified, is then presented. Section III concludes.

I. The Kirznerian Theory of Entrepreneurship

The project in understanding the market process undertaken by Kirzner, as mentioned briefly above, can be seen as an attempt to resolve the problem present in traditional neoclassical microeconomics, of how an economic system is to reach equilibrium from an initial starting condition of disequilibrium. As pointed out by Arrow (1959) among others, in a world populated exclusively by price-taking individuals, if the current system of prices is not in equilibrium, no mechanism seems to exist for that system to self-adjust. The institution of the Walrasian Auctioneer, and its pre-reconciliation of prices, circumvents this problem if allowed to operate fully before trading commences, but the operation of that process of tâtonnement can hardly be supposed to occur continuously.

It is to correct this problem that Kirzner introduces the entrepreneurial element of human decision-making, embodied in the model by a particular entity, the pure entrepreneur. This new agent type, in contrast to the price-taking maximizing agents in
the standard neoclassical model, not only is not a price-taker, but also requires no initial endowment. Instead, the pure entrepreneur is the force of price-making in this modified neoclassical economy by being alert to conditions of disequilibrium, which she can then correct via arbitrage, the profit from which is the return to entrepreneurial activity. Thus, in contrast to the defining quality of the neoclassical actor of maximization within given constraints, the defining quality of the pure entrepreneur is alertness, this capacity to identify otherwise overlooked situations of disequilibrium and exploit them to obtain the arbitrage profits implied.

Exactly what behaviors alertness allows to entrepreneurial agents that is denied to strictly price-taking agents becomes increasingly less concrete as the choice environment being considered increases in complexity. In the simplest models of a single-good, single-period model, the exercise of alertness is simple, consisting only of one who “observes the opportunity to sell something at a price higher than that at which he can buy it.” (Kirzner 1973:16) In a production economy, alertness is concentrated in a more complex individual, “an entrepreneur who perceive the opportunity to buy resources at a total cost lower than the revenue he can obtain from the sale of output.” (ibid:17) In illuminating the role that these actions have in providing the process of equilibration to the market, alert individuals are described to “display entrepreneurial alertness to possible changes in these [market] data.” (ibid:39) Yet alertness is not merely some kind of knowledge of datum, as Kirzner explains: “The aspect of knowledge which is crucially relevant to entrepreneurship is not so much the substantive knowledge of market data as alertness, the ‘knowledge’ of where to find market data.” (ibid:67, italics original)
These descriptions leave the ontological status of alertness still in some doubt. Certainly alertness distinguishes entrepreneurial actors from those who are merely price-taking maximizers, and certainly it provides the solution to the problem of price adjustment. But what other properties this propensity has are as yet underdeveloped. Here, Kirzner’s description of alertness as being derived from the Misesian conception of human action is helpful in discovering more of the contours of this quality. One central distinguishing feature of the neoclassical maximizing agent is that the set of means and ends within which the constrained maximization takes place are treated as given: this manifests in the above case as price-taking, but applies equally to having access only to a fixed set of production possibilities, as well as the existence of a known and stable utility function enumerating the marginal values of all known consumption possibilities. This given structure of means and ends is in sharp contrast to the view of human actors Kirzner inherits from Mises, as he stresses that individuals possess not only currently given ends and means, but “the drive and alertness needed to identify which ends to strive for and which means are available.” (ibid: 34) From this, one feature that is unsurprising given the strong commitment of Austrian economists to methodological individualism is explicitly identified, which is that alertness is fundamentally a quality obtained and exercised by human actors. Given the ubiquity of acting individuals in praxeology, assigning this quality to human actors avoids one potential pitfall, which would be treating alertness, and therefore entrepreneurial activity, as a resource owned by particular individuals, which would then command a market price and so be subject to the same critique as all other factor prices.
The pure entrepreneur, who embodies alertness only in the model, is thus not the identification of an agent with a special endowment, but an abstraction meant to isolate the mechanism by which alert activity generates the equilibrating forces of the market process. In this approach, Kirzner follows much the same approach as Mises’ discussion of the entrepreneur, where he points out the following: “Economics, in speaking of entrepreneurs, has in view not men, but a definite function. This function is not the particular feature of a special group or class of men; it is inherent in every action and burdens every actor.” (Mises [1949]2008: 253) Thus, the absence in the real-world of a segregation between pure entrepreneurs and ordinary neoclassical maximizers is not problematic for the argument that the essential feature of entrepreneurial activity is alertness.

The ontological problem of understanding exactly what, among the things that constitute human actors, alertness is, still remains here. Notably, alertness seems to have taken on a rather circular role within the Kirznerian exposition of the entrepreneurial market process. Alertness is the quality that gives rise to entrepreneurial activity, while entrepreneurial activity is defined by actions that result from alertness. The knowledge that leads to entrepreneurial activity is, by Kirzner’s own admission “abstract, very general and rarified.” (Kirzner 1973: 69) Since for the purposes of understanding the market process and establishing the existence of a way for markets to escape initially disequilibrium prices, the particular nature of the quality itself can remain a ‘black box’, from within which issues forth the tendency for disequilibrium situations resulting from
radical ignorance to become noticed, exploited, and corrected, any more specific an operating mechanism for alertness is superfluous.

Indeed, the sheer parsimony of the Kirznerian approach is admirable and worth considering. In order for the Kirznerian theory of the market process to succeed at resolving this problem and give us an account of a market able to develop over time without the pre-reconciliation of plans, and thus for coordination to be an emergent property of market interactions rather than an introductory assumption, remarkably few modifications to the initial theory were needed. The first is that the world must be one of imperfect information, so that there exist a non-zero amount of situations of disequilibrium stemming from radical ignorance. These situations can be thought of as gaps in what can be broadly called ‘market data’ that represent situations chances for entrepreneurial profit, in the simplest case a pure arbitrage, increasing in complexity and becoming more entangled with other sources of profit as the choice environment increases in complexity. Second, these gaps must not require any particular endowment of initial resources to exploit. This is easy to see in the case of a pure arbitrage profit, at least in presence of something serving the role of a fluid short-term credit market in which an individual with exactly no assets can borrow funds, purchase the underpriced items, resell them, and then repay the loan, retaining the remainder as pure profit. Just as the description of the process of reaping the pure profit increases in complexity, so too does describing how the opportunity itself requires no assets, but this central feature of these disequilibrium situations nevertheless remains. Since no special endowment is required to exploit the opportunity, only knowledge that it exists, this means such profits
are subject to universal competition from all other acting individuals in the market: at any moment, a disequilibrium situation noticed only by a single entrepreneur could be noticed by another. This feature gives rise to the inherently competitive character of markets \(\text{(ibid: 13)}\), and combined with the fact that obtaining the pure profit that arises from the initial situation of disequilibrium entails simultaneously eliminating that same situation, such as for example by making all the previously unmade trades in the market and retaining the surplus, means the entrepreneurial market process tends towards the welfare properties normally associated with competitive markets in equilibrium. If either of these parts were to be suspect, at least in Kirzner’s view, the market process would have to be viewed “as nothing more than the immediate expression of spontaneously changing preferences and expectations” (Kirzner 1992:12) with respect to which, “nothing systematic can be begin to be claimed with regard to the welfare properties of the market economy.” \(\text{(ibid: 14)}\)

Of course, despite the relatively small number of foundational claims required for the Kirznerian theory to operate, it has not been without critique on precisely these grounds. Indeed, it is telling that the quotations regarding the loss of systematic claims are from a section of more recent work primarily devoted to responding to critics he sees as calling these fundamental aspects into question. Perhaps most focally associated with the arguments of Ludwig Lachmann, such as in “An Austrian Stocktaking” (Lachmann 1978a), who following the epistemic arguments advanced by G.L.S. Shackle argues that for a variety of reasons, Kirzner’s portrayal of the entrepreneurial role as one that is always and necessarily equilibrating is inaccurate. One argument made by Lachmann and
those inspired by him contends that, despite universal competition for these opportunities, there is no mechanism within the theory by which we can conclude that the entrepreneur who acts on any particular identified disequilibrium situation will alleviate, rather than exacerbate the inaccuracies contained in the current market data. While this seems difficult to imagine in the simplest case of single-good, single-period arbitrage, once the choice environment becomes more complex, it becomes progressively easier to imagine such situations. Arguments in this direction point out that it is precisely previous errors by market participants which have led to the current situation of disequilibrium in the first place, and so we lack a way to be sure that entrepreneurial actions are going to be somehow freed of those same errors. Thus, in considering ways in which entrepreneurial activity could fail to coordinate, Loasby argues: “The first [way] is that entrepreneurs’ perceptions may be false… the second problem, [is] the effect on the final equilibrium of initial out-of-equilibrium exchange.” (Loasby 1982:116) This second effect derives from the following argument: Suppose an entrepreneur in fact successfully identifies a situation from which she reaps pure profit. This results in a series of changes to the incomes of individuals engaged in the particular markets which have been moved towards equilibrium, not least of which is the entrepreneur herself. These income effects alter what the equilibrium distribution of goods and services will be, and the equilibrium towards which, Kirzner’s theory argues, the entrepreneur’s actions move the market is no longer relevant, having been “falsified by the entrepreneurs’ own actions.” (ibid:116) For Loasby in particular, the addition of speculative markets causes even more reasons to be skeptical that entrepreneurial actions equilibrate the market, especially insofar as such
moves towards equilibrium have the welfare-enhancing properties normally associated with them. In the world of complex tax and regulatory environments facing actors, our understanding cannot rule out the use of alertness towards “the search for profit through the purchase of assets in order to sell them a little later at a higher price to someone who hopes to resell at a higher price still… Entrepreneurs, motivated by self-interest, must be expected to seek profit where they believe they can find it; and it is not difficult to arrange our affairs that some of them can find it in ways that contribute nothing to the public weal.” (ibid: 127-128)

Given the nature of the project of establishing why a neoclassical market could ever reach its equilibrium configuration, Kirzner’s response to the arguments advanced in this tradition is unsurprising. As he argues, his view of the market process is an analytical conception, which highlights the forces “unleashed, at each moment, by the absence of equilibrium.” (Kirzner 1992:43, italics original) For Kirzner, understanding the market process’ equilibrating force is clearest by taking the hypothetical scenario where variables that determine the equilibrium configuration, what he terms underlying variables, “preferences, resource availabilities and technological possibilities” (ibid: 42) are fixed, and the operation of market forces from an initial disequilibrium position continues until the pressures that led to their creation, namely the competitive search between alert entrepreneurial agents for pure profit, had been complete exhausted, at which point equilibrium would be attained. These is thus within the market process observed in the world, which demonstrates no such cessation of change in variables that
determine the equilibrium’s location in the price-quantity space, a distinction between “market processes” and “the market process.” (*ibid:*43)

As may be expected from critics inspired by the radical subjectivism of Lachmann and Shackle, this response which preserves the internal coherence of the system by invoking the exogenous nature of the underlying variables is itself subject to criticism. If, as the radical subjectivist argue and as Kirzner himself seems to contend in many circumstances, these underlying variables of taste, technology, and resources are themselves subjective and the products of authentic human choices, they cannot be properly treated as exogenous to the market system influenced by them. This emphasis on choice, the reality of time, and the open-ended nature of the future which is, rather than discovered, created, by human actors leads this line of critical argumentation to a broad-based skepticism of social theories that seem to embody what is labeled by Buchanan and Vanberg teleological views of social processes, including “a conceptually definable equilibrium towards which the process of socioeconomic change could be predicted to gravitate.” (Buchanan and Vanberg 1991: 173) Such an equilibrium can be identified in Kirzner’s thinking even when he is engaged in the particular task of responding to the emphasis in this line of argument on creation as the defining feature of entrepreneurial activity: “This incentive [to entrepreneurial alertness] is provided by the lure of pure entrepreneurial profit to be grasped in stepping from a less accurately envisaged future to a more accurately envisaged one.” (Kirzner 1982:150)

Engaging further with the details of these positions, and attempting to present and adjudicate between them is a larger project than undertaken in this chapter, and is
explored in some more depth in the third chapter. For the purposes of this chapter, this close reading of the nature of alertness is important, not only to ground the subsequent theoretical discussions attempting to unpack alertness’ features, but also to aid in understanding how work within Kirzner’s framework can be seen to remain within that tradition even while expanding away from the initial project of modification of neoclassical equilibrium theory. In order to be a Kirznerian theory of entrepreneurship, these extensions need only to operate in a world of incomplete information, and for agents within the world to have the capacity to notice situations of disequilibrium, the exploitation of which is subject to competition by other such alert agents. The next section looks at one class of such theories, those that attempt to introduce a role for an interpretive understanding of culture into the behavior of entrepreneurial actors.

II. Culture and the Kirznerian Entrepreneur

Among economists who accept the Kirznerian conception of entrepreneurship and the entrepreneurial market process, there have been numerous attempts to expand upon the sparse description throughout Kirzner’s work of alertness, and exactly how “the market process” interacts with salient features of the world that do not appear in the neoclassical model, often with an eye to understanding the dynamics this introduces in public policy. One salient feature of the real world that has been the subject of significant focus is the presence of cultural factors, and the embedded nature of economic actors in cultures. Of course, culture as a social scientific object takes on a myriad of forms, and discussions of culture in the context of entrepreneurship are not immune. One segment of
this literature treats culture as a set of institutions, or perhaps meta-institutions, that influence the presence and success of other institutional forms, such as those that are treated as preconditions to the effective functioning of a market system. Definitions of culture stemming from this understanding often explicitly frame culture in terms of its relationship to (other) institutions: culture as “those beliefs and ritual practices which give institutions legitimacy,” from Boettke (1998:12), is an excellent example. While there is some tension in this definition on if beliefs and ritual practices are themselves a set of institutions, and if so, if there is some kind of ur-cultural mental structure that ultimately grounds the succeeding layers, this seems to be asking too much of culture in this construction. As a tool for the social scientist, culture here serves to distinguish institutions which are economically relevant from those which are directly economic, i.e. property rights and contract law.

Understanding culture thus becomes important, for this approach, not because of their direct influence on entrepreneurial behavior, but because the institutions which they support or undermine do have a significant impact on entrepreneurship. This institutional background is crucially important in obtaining the welfare properties of the entrepreneurial market process in real-world settings: “Only in certain institutional contexts will entrepreneurs have an incentive to discover new resources, substitutes for existing resources or trading partners to obtain resources. Further, only in certain institutional contexts will entrepreneurs have an incentive to discover new technological knowledge such as new production processes or new organization structures.” (Boettke and Coyne 2009: 158) Institutional context then, filters the entrepreneurial element of
human action, with potentially destructive consequences for the operation of the market process if the ability to reap pure profits from correcting disequilibria is precluded by institutional constraints.

This approach of treating culture as indirectly influencing entrepreneurship though culture’s impact on directly economic institutions contrasts with another literature, which adopts a distinct understanding of the nature of culture as a phenomena, one which leads them to be more concerned with the direct impact culture has on the alertness of individual actors. This alternative understanding adopts an idea of cultural based in interpretive sociology, and stresses the hermeneutical role of culture, which serves as the mental structure that imbues the world with meaning. In contrast to definitions such as the one referenced above which relate to culture to particular beliefs and actions, Storr for instance defines culture as “a historically transmitted pattern of meanings that is shared by a group of people and learned by new members as they become part of the group… [These meanings] shape an individual’s identification and assessment of desirable ends and appropriate means.” (Storr 2013:11-12) For those scholars who simultaneously adopt this understanding and an appreciation of the importance of the operation of the market process, this has required moving beyond the sparse characterization of the entrepreneur present in Kirzner’s original works.

Working with meanings of culture that take on this interpretative understanding, culture plays a far larger role than only granting or withholding legitimacy to economic institutions, instead fundamentally shaping the interpretive framework of actors within a particular culture: what role an institution (or a firm, a particular tool, or any other object
within the structure of that actor’s reality) has in giving meaning to reality as a whole.
Crucially, this interpretive role is seen as a way of taking the ephemeral and rarified concept of alertness out of the neoclassical world and move toward thinking of it as the property of individuals.

One of the main proponents of adoption of this approach as an extension and correction to the original Kirznerian picture of entrepreneurship was Don Lavoie, who saw this project as a natural extension of the subjectivist understanding that is characteristic of the Austrian School as a whole. While he applauds the Kirznerian entrepreneur as superior to the context-less, invariant maximization of the neoclassical economic actor, he nevertheless chides Kirzner for being “not willing or able to go all the way to a fully interpretive approach.” (Lavoie 1991:43) One manifestation of this resistance for Lavoie is the continued defense of entrepreneurship as necessarily equilibrating, concluding that “Kirzner’s theory also seems to treat the entrepreneur’s action as something ‘called forth’ by prior circumstances. Entrepreneurship appears to be a passive reaction to the equilibrium dictated by the data.” (ibid:43) Lavoie concludes that while Kirzner’s theory “is perhaps reconcilable with a fully interpretive orientation to entrepreneurship, the examples consistently undercut his argument.” (ibid:43)

The power of the simple examples of Kirznerian entrepreneurship, such as those used to illustrate how the phenomenon of entrepreneurial alertness leads to an equilibrating tendency in the market process, for Lavoie also serve to trivialize consideration of how entrepreneurship manifests in actors outside of the model. Drawing upon Jack High’s (1982) interpretation of the crucial elements of Kirzner’s project,
Lavoie argues that along with alertness, creativity, and judgment, a crucial part of the entrepreneurial process is the sort of hermeneutical meaning-formation that is central to understanding human action in Lavoie’s interpretive approach. Thus, the pure arbitrage treated as the quintessential example of engaging in entrepreneurial activity is “misleading in that the interpretation is trivial and has already taken places… This example reinforces the impression of profit that one gets from mainstream economics, that it is an objective ‘find’ that does not require interpretation.” (Lavoie 1991:44) This view of profits eliminates the interpretive context within Kirzner’s presentation: “He uncovers unambiguous opportunities to improve his situation that others have simply failed to notice, as if fixed collections of things called profits were lying around and certain individuals were just more alert than others in finding them.” (ibid:44) Lavoie’s ultimate conclusion regarding the project is negative: “in the end it leaves no room for culture.” (ibid:58)

Despite this seemingly sweeping conclusion that the Kirznerian paradigm cannot incorporate the type of interpretive ideas Lavoie sees as necessary, his work on entrepreneurship disregards this conclusion and attempts repair, rather than wholesale replacement, of the Kirznerian view of entrepreneurship. Primarily, this modification takes the form of thinking about alertness taking place within a cultural framework. If one thinks about alertness as being some kind of sensory quality, akin to sight, Lavoie suggests that disequilibrium opportunities are not merely seen, but requires “focusing on an object as a certain sort of thing, seeing it against a background.” (ibid: 44, italics original) Noticing a disequilibrium present in the market data surrounding actors ought
not, for Lavoie be thought of as also containing within that event a simultaneous realization of what the correction of that disequilibrium would entail, the way that observing an overlooked dollar bill on the sidewalk in the classical example entails understanding that the way to profit from this situation is to physically acquire the bill. Lavoie further argues that the mechanisms of the phenomenon of noticing itself ought to be understood at a more specific level, rather than as a homogenous quality of alertness.

For Lavoie, it is necessary to add an additional quality to alertness to understand how entrepreneurial opportunities are perceived, the source of which is the interpretive nature of such perception. The importance of this interpretive role, for Lavoie, “indicates that it is a matter not so much of seeing what is under one’s nose as it is of looking or listening for certain kinds of things. This systematic directedness of the discovery process makes some potential opportunities more likely to be found by certain sorts of alertness… Entrepreneurship is not only a matter of opening one’s eyes, of switching on one’s attentiveness; it requires directing one’s gaze.” (ibid: 45-46) This augmented model of entrepreneurial activity as being the phenomenon identified by Kirzner channeled towards particular areas I will refer to, following the above quote, as directed alertness. As mentioned before, directed alertness appears to be a modification or augmentation of the Kirznerian theory of entrepreneurship internally, rather than a complete replacement or abandonment. Returning to the key features of the world required for the Kirznerian theory to operate, including directedness seems not to invalidate either one: incomplete information remains, and is arguably intensified by narrowing the scope of which disequilibrium situations can be identified by any particular entrepreneur, while as long
as cultural direction of alertness is not so extreme as to render identification of particular
disequilibria exclusive to single cultural frameworks, the profits available remain subject
to competition between entrepreneurial actors.

This directedness is connected in Lavoie’s thinking with resolving another
seemingly mysterious feature of alertness, the absence of a cost. While alertness having
no cost serves an important function within the context of repairing neoclassical theory,
as costly search would seem to be best understood as a resource subject to maximization,
introducing these interpretive cultural elements could also serve to introduce a
meaningful notion of cost to alertness, since noticing things within a particular
framework means forgoing the noticing of opportunities within other frameworks. As
Emily Chamlee-Wright explains in her treatment of directed alertness, “even the most
astute entrepreneur is never fully alert – capable of noticing all profit opportunities.
Rather, an individual entrepreneur will be to certain kinds of opportunities…. The
difference in what two entrepreneurs see – the differences in how they creatively piece
together profit opportunities – may be generated by their different positions within the
market, their unique life histories, their gender or obligations to family.” (Chamlee-
Wright 1997:49-50) In a subtle but interesting expansion of the scope of directed
alertness in this quote, Chamlee-Wright suggests that the differences in what
entrepreneurs see is directly related to their construction of profit opportunities. This
phenomenon is what she describes as “a second order difference” in which “even if
entrepreneurs have access to the same information, divergence interpretations of those
data may still emerge… every entrepreneur will ‘read’ economic data differently.”

(ibid: 59)

This same approach of examining the nature of how culture leads to directed alertness was carried forward in joint work by Lavoie and Chamlee-Wright, aimed at creating a dialogue between cultural studies and economics, in which they argue that “a more useful direction for research to take in order to develop such theories [of entrepreneurship] further is that of examining the specific local cultural contexts of actual entrepreneurial activity.” (Lavoie and Chamlee-Wright, 2000: 56) In this same essay, they attempt to operationalize this resource program by looking at differences between individuals acting in the same industry, direct marketing, between countries with distinct cultural frameworks, in this case the United States, Taiwan, and Japan. (ibid: 68-71) In particular, their discussion understands the operation of directed alertness as being a form of capital endowment possessed by entrepreneurs operating within that particular culture, leading to a system of cultural comparative advantage analogous to notions of comparative advantage in other economic resource endowments, “as markets will develop differently according to their specific natural resources, they will also develop different according to their cultural resources.” (ibid: 64) Alertness directed more towards certain kinds of opportunities by one cultural pattern of meanings gives members of that culture an advantage in engaging in certain kinds of entrepreneurship, even if “in most cases, however, exactly how culture shapes entrepreneurial perspective is not a process that can be explicitly specified. Entrepreneurs may not be aware of how their own focus is directed by the cultural context in which they operate.” (ibid: 72-73)
Virgil Storr’s work on the economic culture of the Bahamas also places culture into a central position, since culture is seen as “a background against which all (political, social, and economic) activity takes place.” (Storr 2004:19) Along with the direct connection of being a student of Emily Chamlee-Wright as an undergraduate, and doing his graduate work under Don Lavoie, Storr also explicitly places the emphasis on culture as the natural extension of the project of verstehen, understanding, drawn from Max Weber and, as he argues in Boettke and Storr (2002), continued by the Austrian School of Economics, notably in the work of Mises, Hayek, and Lachmann. For Storr, “a commitment to meaning ipso facto moves the study of culture to the fore of the analysis.” (Storr 2004:19, italics original) The vision of economics as a science of meaning, the importance of understanding culture to obtaining that meaning, and how to carry on that project in terms of a particular research program, is more fully explored in Storr’s *Understanding the Culture of Markets* (Storr 2013, see also McCloskey 2014, Chamlee-Wright 2014, Garnett 2014, Stein 2014, and Storr 2014).

In developing his own vision of how to incorporate culture into the study of entrepreneurship, Storr is considerably more optimistic than Lavoie’s comment quoted above regarding the inability of the Kirznerian theory to include any sort of cultural features. Although as noted before that the finality of that conclusion seems to conflict with the rest of Lavoie’s writings attempting to rehabilitate the theory, whereas it would seem that “if Kirzner’s theory of entrepreneurship was not amenable to discussions of culture then Lavoie would have had to discard it.” (Storr 2004: 29) Given the substantial efforts to correct or expand upon the theory, along with various statements by Kirzner
over the four decades since the initial publication of *Competition and Entrepreneurship* where he notes that “different contexts produced (qualitatively) different kinds of entrepreneurs.” (*ibid*: 29) However, the particular analogy of cultural frameworks as a capital good and the corresponding view of cultural comparative advantage as obscuring, rather than aiding, our understanding of the function of culture in economic activity. For Storr, “it’s the parallels that can be drawn between natural and cultural phenomena that expose the problems inherent in that [culture as capital] whole approach.” (*ibid*: 31)

One way of circumventing the problem of understanding the economic function of culture, a problem that, as Stein (2014) points out, remains difficult to resolve even in more recent treatments, is to move away from treatment of culture operating as an economic force, but instead to consider entrepreneurs themselves. This is the direction Storr takes, arguing for “focus on the ideal-typical, the quintessential entrepreneurs in particular cultures;” ideal-types which he sees in much of the applied work on culture and economics. In particular in the Bahamian experience, Storr identifies two ideal-typical entrepreneurs, both of whom are created from, and coexist within, the Bahamian web of significance. Directed alertness here is less explicitly the mechanism by which the operation of these ideal-typical conceptions shape entrepreneurial action than in Lavoie and Chamlee-Wright, but it is certainly at least part of the story, as some of the following passages suggest: “People learn from their pasts; it alerts them to one set of opportunities and often, blinds them to other possibilities.” (Storr 2004: 55) The master pirate, one of the two ideal-typical entrepreneurs, acts upon Bahamian actors in a way that makes “Bahamian entrepreneurs particularly alert to *profit*teering opportunities, that is,
opportunities to ‘get something for nothing’ or to capture extraordinary rents through *piratical* activities.” (ibid: 70, italics original) At least as presented in this passage, the master pirate seems to have a purely directional role in the entrepreneurial process.

This may not however be due to Storr’s consideration of the cultural impact on entrepreneurship operates only through the mechanism of directed alertness: his treatment of the other ideal-typical entrepreneurial character, the enterprising slave, operates by providing the antecedents of the work-ethic observed among entrepreneurial Bahamians. In this way, different ideal-types appear to be operating at separate times in the entrepreneurial process, as the sorts of claims regarding entrepreneurs implied by this conception of a work-ethic are by necessity posterior to the instantaneous moment of alertness. (For more on this distinction, see Kirzner (1973:40, footnote 7)). However, for aspects of culture which do act upon alertness itself, directed alertness appears to be the only mechanism by which this occurs.

Kirzner has not been a silent observer of these various challenges and extensions to his original theory, and he has provided various clarifications and restatements of aspects of his theory, as well as discussions of to what extent issues such as the existence of radical uncertainty or the role of culture present difficulties to the core of the theory. Out of a prolific body of writings along these lines (Kirzner 1982, 1992, 1997b, 1999, Kirzner and Sautet 2006), explicitly consideration is given to the location of cultural factors in the theory of the entrepreneurial market process (Kirzner and Sautet 2006). In a remarkable display of consistency across various challenges to the theory and four decades of conversation, Kirzner’s reply has remained virtually identical, and focuses on
distinguishing between the core theoretical project of establishing the essential nature of
the entrepreneurial market process, the tendency to correct situations of disequilibrium
discussed above, from various projects trying to understand real-world entrepreneurs. As
Kirzner and Sautet explain, “We should emphasize that all of these elements
(innovativeness, uncertainty, boldness, and speculation) in entrepreneurship are
important. In the real world (as distinct from the world of pure theoretical models), all
these characters of entrepreneurship are likely to occur together and inseparably.”
(Kirzner and Sautet 2006: 7, italics original.) The situation for culture is similar to these
various psychological elements of entrepreneurial motivation: an important element of
real-world and entrepreneurship, and, critically, that element is understood to manifest as
directed alertness: “Culture can shape what an individual perceives as opportunities and
thus what he overlooks, as entrepreneurship is always embedded in a cultural context.
Clearly, some cultural contexts are more conducive to entrepreneurial discovery than
others. However, culture for the most part has to do with orientation (affecting where an
entrepreneur may direct his gaze) and results in entrepreneurship looking differently
across contexts.” (Kirzner and Sautet 2006: 17) While this passage raises an important
issue regarding the extent to which we can make conclusions regarding the conducive or
hostile relationship between any particular culture and entrepreneurship, a theme
discussed at length in Storr (2013), this chapter will set this issue aside to focus on the
explicit endorsement of directed alertness.

Kirzner’s responses have been met with varying degrees of satisfaction over the
years, especially in resisting the ability to distinguish cleanly between the essentialist
view of entrepreneurship and the properties of real-world entrepreneurial actors. For Storr and John (2011:13), Kirzner’s response “both concedes too much and too little.” Too much, they argue, since a proper understanding of the real-world entrepreneur would recognize that the psychological qualities highlighted by Kirzner as being inseparable from real-world entrepreneurs but ultimately secondary to understanding the entrepreneurial function are themselves not necessary, as some contexts might render them moot or even counterproductive to entrepreneurial activity. Too little, in that this distinction still relies on the restrictive neoclassical apparatus of arbitrage pure profit bringing the market closer to a definable equilibrium. For Storr and John, “once the market environment utilized in the model becomes more complex, the scope for interpretation grows larger and it becomes necessary to employ something like culture to explain why some opportunities get noticed and others do not.” (ibid: 14) They attempt, like Lavoie and Chamlee-Wright, to offer a corrective extension to the Kirznerian model that would place culture in an appropriately central explanatory role. While the previous quote suggests pure directed alertness, their proposed steps towards a cultural theory incorporates interpretation at the level of the opportunity itself: “these opportunities are not readily identifiable as opportunities but must be identified as such;” as well as a clear statement of the directed alertness role: “differences in stocks of knowledge (both individualized and social/cultural) explain why different individuals are alert to certain opportunities and not others;” (ibid: 14)

However, in the choice of examples to highlight how their proposed cultural theory would present stylized examples, their choice obscures the project, implicitly
reducing it back to only directed alertness, much the same way that Kirzner’s original choice of paradigmatic examples eliminated the scope for culture in Lavoie’s estimation. Drawing upon Storr (2004), their interpretation of the role played in Bahamian culture by the ideal-typical entrepreneurial actors is largely concurrent with that presented earlier in this chapter, and explicitly treats the effect of culture as directing alertness: “the master pirate’s alertness to alternative business types seems to be switched off, whereas she appears to be hyper alert to opportunities for quick and easy bounty in the form of rent seeking and political profits… the spheres of business activity which she is alert to are to a large extent determined by her historical experiences with piracy, her culture.” (Storr and John 2011: 15) If anything, they are more comfortable placing both ideal-typical entrepreneurs in the realm of directed alertness, characterizing the enterprising slave as “an entrepreneur in the Kirznerian sense, in that she is alert to a different set of opportunities for profit.” (ibid: 16) Culture in another example, Trinidad, again takes on a pure filtering view: “In general, then, members of different ethnic groups in Trinidad, because of their different experiences during and after colonialism, are alert to different kinds of opportunities.” (ibid: 17) Despite the explicit inclusion in the theoretical discussion of the role interpretation has in opportunity formation, and not just in directing alertness towards particular (a-cultural) opportunities, no mention of that is contained in the examples with which the framework is illustrated. Similarly, in the discussion of the role of interpretation in entrepreneurship in Understanding the Culture of Markets (Storr 2013:33) is similar: the discussion begins with demonstrating that even the case of the physical bill found upon the ground is a situation that requires interpretation, such as
identifying the bill as money rather than a worthless scrap of paper, evaluation of the
costs of acquiring the bill off the ground, the legality or propriety of picking the bill up,
etc., all beliefs which focus on whether or not the bill seen on the ground \textit{is} or \textit{is not} an
opportunity. Once that judgment has been made, something that is rightly seen as
depending on the interpretive framework of the actor, the action again reduces to a
triviality. Interpretation then, even when discussed as being a universal component of
entrepreneurial activity, is predominantly treated as occurring at the stage of alertness,
directing this faculty of acting individuals one way or another, towards certain
opportunities and away from others.

\textbf{Creating Space for Interpretation of Opportunity}

This nearly complete focus on directed alertness as the mechanism by which
culture shapes entrepreneurial activity is problematic insofar as, as documented above, it
seems to occur simultaneously in authors who in general stress the universality of the
impact of culture, and indeed to even explicitly claim some relationship between
interpretation and the construction in the mind of the entrepreneurial actor the concept of
what exactly it is that alertness has revealed. The source of this tension seems, as Lavoie
pointed out in his frustration with the examples chosen by Kirzner, to stem from taking as
the paradigmatic cases of the manifestation of entrepreneurship as those where issues of
interpretation are at their most trivial. In moving away from that towards directed
alertness, there exists one level where the interpretation ceases to be trivial, where
particular types of opportunity are more readily identified within some frames of
reference than others. However, the object of alertness here remains \textit{the opportunity}.  

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It is this conception of the opportunity that remains as a vestige of the original neoclassical framing of the entrepreneurial market process, and therefore restricts the scope of where culture can be extended even by those actively working to incorporate it into the theory. To eliminate this oversimplification, a slight modification of how the process of Kirznerian entrepreneurial activity takes place is needed. This modification is suggested in the discussion of the core elements of the theory earlier in this chapter, which is to think of alertness not as alertness to opportunities, but alertness to situations of disequilibrium present in current market allocations.

This modification to the object of alertness retains the key features that allow the entrepreneurial market process to function in establishing a tendency in markets for conditions of disequilibrium to generate activity meant to correct them, by retaining both imperfect information (the source of the situations of disequilibrium) and the possibility of competition for the profits resulting from identification of those situations (both since no particular initial endowment is required to observe disequilibrium situations around oneself, and because even an erroneous attempt to correct them will result in the elimination of that disequilibrium situation, albeit in the worst case merely replacing it with another, more severe, situation of disequilibrium.) In addition, in the simplest case of the single-period, single-good market, identification of a disequilibrium situation (price dispersion) collapses into recognition of the method by which that is rendered into pure profit (arbitrage).

Putting previously unnoticed situations of disequilibrium as the object of alertness makes the conceptual exercise of understanding how interpretation enters into
opportunity identification, as opposed to purely serving to direct alertness between various already extant opportunities, increases the scope for a program of understanding how particular entrepreneurial actors function given their cultural lens. Culture shapes not only what situations of disequilibrium command the attention of individuals in the market (directed alertness), but also what constitutes a satisfactory way to resolve the disequilibrium and thus earn the pure profits latent in such situations (opportunity formation).

For an example of how a restatement along these lines might proceed, we can consider a case discussed by Storr (2004), of the enterprise of wrecking as practiced by Bahamians, used as representative as the type of opportunity sought out by the ideal-typical master pirate entrepreneur. Here, this alternative view would consider the problem from a slightly different starting point, that of attempting to identify the underlying disequilibrium condition. In this case, this would be that ships carrying valuable cargo were, for lack of a way to avoid doing so, leaving their cargo beneath the waves. That Bahamians noticed that these ships represented a disequilibrium phenomenon was directed at least in part by their history and exaltation of piracy is directed alertness, but culture does not stop there. Why, upon noticing this disequilibrium state of affairs was the profit opportunity to be exploited seen to be salvaging the wrecks, or indeed actively inducing additional shipwrecks? Piratical cultural narratives likely have just as significant a role here as in directing attention towards the wrecks strewn about the shoals in the first place. Were those piratical cultural lenses replaced with others, such as ones stressing the sanctity of property rights and the ability of private actors to solve public goods
problems, other ways of eliminating this particular disequilibrium might have been considered the appropriate way to earn pure profits. Possible examples may be some welfare-enhancing contract between ship owners, presumably anxious not to see their ships and cargo run aground, and locals to serve as guides, or even the provision of a network of private lighthouses. These solutions again could be contrasted with a worldview placing relatively little value on material wealth using the rescue efforts directed at cargo and crew as a way to show personal altruistic virtue. While these are obviously conjectural counterfactuals, they illustrate that conceptually there can be a distinction between identification of a particular disequilibrium, and the identification of the opportunity for profit latent in that disequilibrium. Furthermore, this identification is still again separate from the activity Kirzner considers as the maximizing exercise of engaging in whatever new means/ends combination was discovered via alertness, where at least in the original model all decisions returned into the world of the neoclassical maximizing agent until another moment of serendipitous alertness again generated a new pattern of means and ends.

**III: Conclusion**

Kirzner’s theory of the entrepreneurial market process provides a key starting point for understanding the operation of markets, but as a theory of understanding entrepreneurial behavior itself it leaves much unexplained. Over more than four decades, this latter element of the theory has been the subject of numerous refinements, both internal to Austrian economics and in the broader field of entrepreneurship studies. Yet, primarily the essential elements of the theory remain unchanged: entrepreneurs exercise a
faculty of alertness to identify pure profits, the capture of which brings the market as a whole closer to an equilibrium configuration of prices. For understanding this process, treatments of entrepreneurs as bold, creative, culturally mediated, or any other quality beyond alert are immaterial for understanding how the market process tends towards increasing coordination. However, for understanding not just the reason why we can be confident that markets might have any correspondence whatsoever with their theoretical counterparts, but instead historical and contemporary entrepreneurial activity itself, building a more complex picture of how features of human agents interact with alertness becomes a more important project.

The treatment of these issues in the tradition based in a hermeneutical understanding of the role of culture is a fruitful way to pursue this project, and the concept of directed alertness is an important way of highlighting one aspect of that role in understanding real-world entrepreneurial activity. Given its ubiquity in discussions of incorporation of culture into entrepreneurship and its explicit endorsement by Kirzner, this one part of the cultural story seems to have come to be the focal point between culture and entrepreneurship, a trend in emphasis related to the notion of opportunities themselves as the objects of alertness. It is this trend that I hope shifting the focus by insisting on thinking of alertness as being oriented towards alertness to situations of disequilibrium will correct, allowing the role of culture in creating what precisely the opportunity latent in those disequilibrium situations are to re-enter the conversation.

While an adjustment this small may seem like a linguistic trick or some other kind of triviality, I contend instead that this represents a clarification of one of the most
conceptually complex elements of the Kirznerian system, the nature of alertness, one that would otherwise be overlooked as a consequence of our choices in language and example. In this sense, the emphasis on alertness having as its object not opportunities per se, but disequilibrium situations which present entrepreneurs with the problem of resolving those situations and earning pure profit (that is, turning the situation into an opportunity for pure profit), is something fundamental about alertness, and not merely an epicycle of this particular project of seeking the cultural foundations of entrepreneurial action. The operation of entrepreneurship is key not only to our understanding of the foundations of the market process’ tendency towards equilibrium, but also the dynamics of interventionism, as well as economic development. In these areas, as pointed out by Boettke (2014), there are still significant areas where our knowledge of how institutional entrepreneurship operates are lacking, and the differences between the institutionally sparse environments of neoclassical theory and the real world are salient. It may be that in a stable system of well-functioning market institutions the process operates fundamentally as Kirzner’s essentialist presentation describes it, without much need to deviate from an understanding of entrepreneurial activity as identification of previously overlooked opportunities for pure arbitrage. But in a market process subject to systematic intervention or embedded in various other layers of institutions, understanding alertness as a reaction to disequilibria, and the way in which disequilibrium situations are translated into attempts to capture pure profits, is likely to be critical.
THE PERSONAL NATURE OF THE MARKET

Attempts to articulate and define the essential features of capitalism and the market system are as old as the concepts themselves. The nature of economic activity, as well as the constituent elements of human nature that give rise to it, are some of the most profound and profoundly divisive questions in the social sciences. Among economists, Adam Smith’s famous proclamation that the division of labor, and its attendant increases in material production, was a direct outgrowth of “the propensity to truck, barter, and exchange” is the quintessential answer to this line of questions. Yet the relationship of this propensity to the broader structure of human sociability is often one of tension. Exchange, in contrast to other ideal-typical social relationships, is often seen to have a fundamental impersonality to it, something often stressed as a virtue by proponents of market activity and condemned as one of the primary vices by those critical of commercial society. Indeed, that exchange within the market is of a fundamentally impersonal character is one of the few areas where defenders and critics of markets find common ground. (Bruni and Sugden, 2008) On the critical side, the increasing integration of economic activity into everyday life is seen as akin to a colonial takeover by the market of other social spheres (Eikenberry 2009), an intrusion which is to be resisted due to the essentially antisocial nature of the market (Saul 1995), its impersonal and egotistic character (Anderson 1990), and its transformation of individuals into a separate, market
identity, that of consumers (Purcell 2008). Defenders stress instead the importance of this impersonality, such as diZerega, who characterizes the liberal community, one “rooted in market relations,” as “abstract and anonymous” and generated by the presence of abstract procedural rules which aid in allowing strangers to cooperate for mutual benefit. (diZerega 1997: 121)

Impersonality as one of the defining qualities of market relationships also serves to justify practices which abstract away from all non-economic aspects of persons when they are modeled in economic contexts. This is in contrast to other approaches to economic behavior, as explained by Offer: “In neoclassical market exchanges personal acquaintance is immaterial. The gains from trade are all the gains there are… In contrast, in the gift exchange, the price is indeterminate…. [gift] Exchange is not only an economic transaction, it is also a good in itself, a ‘process benefit’, usually in the form of a personal relationship.” (Offer 1997:451, italics original) Ludwig von Mises, while stressing the roots of the market in individual behavior, and noting that “the market is a social body”, nevertheless reasons that since as individuals each participant is such a small fraction of the overall market system that “they appear to the individual as something given which he himself cannot alter.” (Mises [1949]2008:312) As mentioned above, for defenders of the market system this impersonality is a desirable outcome, since the expansion of the extent of the individuals one can make mutually beneficial exchanges with to include even those without a durable personal relationship allows all to benefit, and may even give rise to the social and institutional structures that allow modern
society to escape the narrow tribalism of primitive societies, concepts developed extensively in the work of F. A. Hayek. (Hayek 1945, 1948, 1978)

Despite this broad agreement regarding the impersonal character of market participation, this conception as the market as necessarily and fundamentally an impersonal space has been challenged by some scholars, who argue that rather than a space that isolates individuals and fosters purely atomistic social relationships, market interactions in fact provide a vehicle by which participants to an exchange can come to meet each other and form personal relationships. This chapter attempts to resolve two separate but related questions generated by these theories that resist the impersonal view. The first question is what features of the market, and of market behavior, are used by each side to construct their picture of the relationship between market sociality and social behavior in other contexts. The second question, drawing upon these features, asks if there are aspects of the literature on market behavior that could shed light on these two conceptions. This chapter thus proceeds as follows: Section I reviews the history of the view of the market as impersonal, with a particular focus on a particular strong formulation of the view, that of Max Weber. Section II then examines the development of theories that reject this impersonal conception and try to understand the market as an area of human sociability that is, or at least can be, personal. Section III then looks to some empirical literature on consumption behavior to try and identify some candidate mechanisms through which market behavior comes be personal. Section IV concludes.
I. Impersonal Conceptions of the Market

Any discussion of the systematic treatment of the market system would be remiss in not engaging with the work of Adam Smith, and in thinking about the social character of the market, Smith’s work proves a useful starting point. As mentioned before, the market system arises in Smith’s view as a consequence of the propensity for mankind to truck, barter, and exchange. While men are also capable of obtaining the means for the satisfaction of their wants through appealing to the favor of others, the time required to obtain these favors from the many distinct individuals involved in acquiring all of the objects of one’s desires is prohibitive: life is too short for this to be a viable strategy. In contrast, since in market exchange one party to a transaction relies not on the goodwill of the other, but instead presents the opportunity for an advantageous exchange, there is no need to engage in the costly process of befriending each such potential counterparty. For Smith, the ease of relying upon the advantage of another extends even to those whose principle source of income is in fact relying upon the charitable feelings of others, such as the beggar: although the direct appeal to the charity of one’s fellow-man is the beggar’s means of subsistence, even that is usually performed through using charitably given money to engage in otherwise routine economic transactions. (Smith [1776]1904: I.2)

Others within the English political economy tradition, notably Wicksteed, are similarly interested in the way in which economic relationships take (or do not take) the position of the counterparty into account. While obviously for exchanges to occur the resulting trade must render both parties subjectively better off, while the bargaining activity itself is ongoing, bettering the condition of the counterparty is antithetical to making oneself maximally satisfied. Wicksteed’s discussion of this is particular
interesting since he notes that one’s own maximal satisfaction could include various altruistic considerations, but “what makes it an economic transaction is that I am not considering you except as a link in the chain, or considering your desires except as the means by which I may gratify those of some one else – not necessarily myself. The economic relation does not exclude from my mind everyone but me, it potentially includes every one but you.” (Wicksteed 1910: 1.5.16) This impersonality is thus a very particular kind, which excludes from the potential sphere of community precisely the other individual with whom one is presently dealing. For Smith and Wicksteed, of course, this impersonal relationship between party and counterparty is a positive aspect of the operation of the market system, as it enables the widespread coordination of human talents, nearly all of which lay outside each individual’s personal social relationships. However, many other writers have a distinctly less positive view of the impersonal character of these market relationships.

Perhaps the most vocal and influential critics of impersonal nature of market behavior is Karl Marx, who stressed not only the impersonal character of exchange, but also the inevitably impersonal nature of capitalist production, an invasive system characterized in his view by alienation and oppression: “The devaluation of the world of men is in direct proportion to the increasing value of the world of things. Labor produces not only commodities; it produces itself and the worker as a commodity – and this is at the same rate at which it produces commodities in general.” (Marx 1844) This account of the ‘commodification’ of persons, natural resources, and society in general has become one of the central critiques of market systems. Similar to Marx, yet without some of the
same metaphysical connotations that alienation implies, is the fragment contained in Max Weber’s *Economy and Society* (Weber 1978) on the nature of the market. Here, Weber sketches out a view of the ideal-typical market that is similarly strongly impersonal and antithetical to the sorts of structures that govern the rest of social life.

Weber begins by describing the market as “the archetype of all rational social action” (*ibid*: 635) and identifies it as existing whenever there is competition for potential exchanges. The rational actors that inhabit market spaces are atomistic and purely focused on engaging in bilateral exchanges with other rational actors inhabiting the space, leading to “a coexistence and sequence of rational consociations, each of which… cease to exist with the act of exchanging the goods” (*ibid*: 635) and is classified as social mainly due to the phenomenon of dickering proceeding the exchange itself, where each of the parties to the bilateral exchange makes their counterparty consider the actions of potential competitors. The market community of these atomistic actors, centered upon the completion of these exchanges thus becomes, to Weber, “the most impersonal relationship of practical life into which humans can enter with one another.” (*ibid*: 636) This is not a feature of the competitive nature of the market, he argues, rather assigning this impersonality to “its matter-of-factness, its orientation to the commodity and only to that.” (*ibid*: 636)

This focus on the commodities to be exchanged is not only the essential feature of market behavior, but also “fundamentally alien to any type of fraternal relationship.” (*ibid*: 637) Weber sees the market ethos of focus on the commodity and exchange as alien to those outside the regular cycle of exchange, while crediting the market’s ethos with an
inexorable pressure to expand to include more aspects of life in the system of gains from trade, a “continuous onslaught” seeking “the continuous extension of the free market.” *(ibid: 638)* The end result of this process, in Weber’s view, would be the destruction of all previous monopolistic groups based around prior social status and association, all of which would be replaced with capitalistic monopolies who banded together to restrain trade based solely on their rational interest in maximizing their own returns.

This (admittedly fragmentary) account of the essential nature of the market suggests that markets create a sphere within which action is hyper-rational, purely material, and directed opposed to any sort of community based on personal association. Extrapolating somewhat from the original text, one might even ask to what extent these hyper-rational market actors exist outside of the dickering characteristic of bilateral negotiation, or if individuals in the market *qua* market exist only as owners of particular commodities, and become separate persons when dealing with other commodities or after an exchange has been completed. At the same time, the effects of the market ethos are not presented in a purely critical light, as Weber notes that several traits go along with the impersonal, exchange oriented market attitude, such as the particular ethic of “rational legality” *(ibid: 636)*, as well as the “opportunities for gain” *(ibid: 637)* provided by the market, which lead to the subversion of traditional or religious association. The expansion of market activity is also connected intimately to the spread of non-violence, since rational exchange is “the conceptual opposite of appropriation of goods by coercion of any kind.” *(ibid: 640)* The overall picture remains however a bleak, commoditized existence where “[s]uch absolute depersonalization is contrary to all elementary forms of
human relationship.” (ibid: 637) As Weber notes, dissatisfaction with this pervasive market ethos among German neo-Romantics served as one major source of their anti-Semitism, a series of critiques that would be expanded in conjunction with economic nationalism in the ideology of National Socialism.

Among sociologists, portions of Weber’s view continue to be highly influential of accounts of market activity. Gudeman’s distinction between market relationships, engaged in “for the sake” of short-term goals, in contrast to relationships engaged in “for their own sake” (Gudeman 2001:10) corresponds well with Weber’s view of the limited time duration of the consociations between market actors, and is even a contrast drawn by Kenneth Arrow in his critique of the concept of social capital (Arrow 2000). The emphasis within market relationships on the commodity that is subject to exchange, in contrast to the person with whom one is exchanging, continues to be a central element of examinations of market behavior, particularly in areas where that ethos conflicts with other cultural values, such as in medicine, environmental policy, and the interaction between market activity and cultural activity, such as in tourism. Swedberg (2002) highlights the similarities between Weber’s conception of capitalism and that of Schumpeter, noting that although the introduction of capitalism is initially through intentional action on the part of those attempting to expand the market sphere, it can morph into a stable institutional form that constrains individual action, thus becoming another example of the ‘iron cage.’

Weber’s account also shares some features with depictions of the overall market system given by thinkers in the Austrian School, perhaps unsurprising in light of the
engagement by Austrian thinkers with Weber’s work discussed in the first chapter. One area of clear overlap is between Weber’s linking of the spread of rational, nonviolent exchange to the ethos of markets, something that is a key feature of the development of a market society in the work of Hayek (1979, 1988). For Hayek, just as for Weber, movement towards increasing use of markets required movement away from close-knit communities based upon group solidarity and reciprocity and towards impersonal conduct of exchange, a move that altered the status of outsiders to the society from sources of potential conflict to sources of potential gains from exchange. As Weber points out, one way in which this transformation was secured historically was by linking the physical space within which exchange was to take place with an area where third-party enforcement of nonviolence could be expected, such as a temple. (Weber 1978:640)

The links between Hayek and Weber are most clear in their shared account of the changes to social organization fostered by increasing market activity, but those between Mises and Weber are best seen through examining Mises’ own pronouncements on the nature of the market as an organizational entity. Consistent with his own strong commitment to methodological individualism and with Weber’s account of the rational character of market participation, Mises contends that “there is nothing inhuman or mystical with regard to the market. The market process is entirely a resultant of human actions.” (Mises [1949]2008:249) The impersonal character of the market for Mises is not due to the exclusive power of rational action since for Mises this is the only sort of action that exists (Mises 1978), but rather results from the operation of the market process. What distinguishes this account from Weber’s is the focus on the structure of the
whole market, rather than treating an individual bilateral exchange as, in and of itself, the essential unit of market activity. For Mises, the market system has broader features that are conceptually important properties of all the individual bilateral exchanges, notably in this case the reality of consumer sovereignty: economic agents in their role as consumers, engaged in buying and abstaining from buying, ultimately serve as the determinates of the structure of production. It is in this role as a consumer that impersonality is clearest, since acting individuals as consumers are explicitly dealing with only their own desires: “For [consumers] nothing counts other than their own satisfaction. They do not care a whit for past merit and vested interests. If something is offered to them that they like better or that is cheaper, they desert their old purveyors… they are hard-hearted and callous, without consideration for other people.” (Mises [1949]2008:270) Yet despite consumers as an economic role within the market process exercising collectively this almost despotic power in determining economic production, each individual looking at the system as a whole is confronted with an impersonal and constraining experience of engaging in the market, detached from the sort of praxeological understanding of these forces as emergent phenomena of action: “The market prices tell the producers what to produce, how to produce, and in what quantity.” (ibid: 259)

Thus, taken at a systematic level, even writers such as Mises who are careful to emphasize the importance of individual choice in the operations of the market process, are comfortable with a picture of ‘the market’ as an organizational entity within society as being fundamentally detached from personal relationships, and indeed even as being one of the primary benefits of market relationships, which take on an enabling quality
when contrasted with static or traditional social structures. But whether reflecting this liberating view of the dynamism of markets or condemning them as a hostile destruction of communal relationships, the picture of market activity as conceptually opposed to personal interaction has remained relatively unchallenged. Partially, this may be due to the amorphous nature of what is considered ‘the market’ as distinct from any particular historical or contemporary markets or places, leaving the concept of the market as “the hollow core at the heart of economics.” (Lie 1997) For some projects, such as understanding the conceptual operation of the market process and the corresponding structure of economic relationships at a purely theoretical level, either in Marshallian and neoclassical price theory or the picture of the entrepreneurial market process developed by Mises and Kirzner, the absence of these historical investigations seems justifiable. However, either when scholars are pursuing understanding of real-world markets and their effects on individuals, or using these ideas as the basis for social criticism, the accuracy of these pure conceptual presentations with respect to actual market systems ought to be examined more closely. Accordingly, the next section presents some of the work that presents a dissenting view and supports, at least, the possibility of market interactions taking on a personal character.

**II. Personal Relations in Market Relations**

As discussed above, prevailing views of the market system’s relationship to other forms of human social interaction has been primarily adversarial, whether as a crucial aspect of liberating individuals and groups from narrow tribalism and allowing human flourishing, or as an invasive force mutually exclusive with real community and thus
requiring resistance or outright opposition. What subjective experience individuals participating in market relationships actually have might not correspond to these systematic or essential presentations however, a point which was made in passing by Don Lavoie (1993), for whom conceding the impersonality of the market was seen as a needless concession made by advocates of market systems to their intellectual adversaries. If we are to follow Lavoie’s remark and think about how market systems and spaces might allow for personal relationships and interactions, an alternative framework for considering exactly what the market ‘is’, and thus how individuals perceive operating within it, is required.

One way to construct this alternative framework is to begin from the element of sociality preserved in the hyper-rational market described in Weber, that ‘dickering’ preceding an exchange actually taking place. While for Weber the content of this conversation remains focused only on the eventual resolution of the transaction in front of the agents, that even this picture contains communication suggests thinking about the ongoing conversations that take place in markets. The market as an extended system of communications (Hayek 1948), or even directly as a conversation (Storr 2008), is a framework already present in the lexicon of economics, particularly those influenced by the Austrian school.

Hayek’s work on the informational role of the price system can serve as a valuable starting point, since as he emphasizes (Hayek 1945) the system of prices that emerges as the result of market activity serves to communicate between all of the disparate actors linked through exchange of the current information about consumer
preferences, resource availabilities, and production technology. Prices are then a particular form of communication within the market, which serves more broadly as a locus of social dialogue regarding particular kinds of activity. Engaging in economic action involves joining the conversation taking place in the market, and communicating with other members of society about desires, abilities, and changes relevant to these aspects of social life. However, as seen above, this communication is often seen as simply technical conversation between strangers, where arch-rational actors such as described in Weber impartially communicate prices and quantities, and little else. Certainly, this is the conversation that takes place in most formal models of economic systems, where utility functions and budget constraints determine behavior and all there is to communicate with other agents in society, or with the Walrasian auctioneer, is the current state of one’s excess demands and perhaps hypothetical vectors of purchased commodities given exogenous prices. Hardly any more conducive to personal relationships is the picture of market conversation found in many critiques of commercial society, who see individuals buffeted constantly by impersonal cultural forces stressing the need to consume, conformity to existing norms, and expanding the sphere of commodification into the self and others. Just as conversations between neoclassical agents seem unable to generate personal relationships, dialogue seems impossible between the individual and these statements *ex cathedra* issuing forth from institutional superstructures or entrenched hierarchies.

Certainly, when examined at the level of the totality of the extended dialogue revolving around economic decision making, which is often a useful perspective for
answering questions in economics and economic sociology, imagining the individual being in any meaningful sense in a relationship with the market seems implausible. From the perspective of the individual, these global, emergent forces can seem impersonal, anonymous and beyond their control, ‘the global economy’ taking on the role of the demiurge. Yet, this relationship with the most aggregate, macro-level ‘market’ system should not be treated as the level on which interaction between individuals and market systems actually take place for the most part. While phenomena at this level can be seen as interactions between very large organizational entities creating certain patterns of outcomes, those entities are themselves composed of some sphere of interactions between smaller units, giving the system a fractal quality. In thinking about individual experiences of market behavior, these large aggregate structures supervene on the individual plans of actors, rather than being located in the same plane as action itself. (Wagner 2010) While individuals are aware of broad aggregate concepts such as ‘the price level’, ‘unemployment’, or ‘globalization’, experiences of those concepts are not (and could not be) experienced directly, but rather are confronted through our micro-level interactions with other individuals, as well as to some extent shaping our interpretation of those interactions. While we may blame or praise these large and impersonal forces for events in the world, it is never these units themselves which we have encountered, nor their abstract and impersonal quality. Rather, we experience the market through specific and personal interactions. It is us, or our friends or family, who lose jobs, a particular superior who has done the firing, and individual consumers, not ‘aggregate demand’, abstains from buying during an economic downturn.
Thus, except in very particular market situations, the concept of market relationships as incapable of existing over time, oriented purely towards a single instance of mutually beneficial bilateral exchange, is unlikely to correspond to how individuals experience participation in the market system. The floor of the NYSE is a highly atypical experience of market exchange, rather than being paradigmatic of it. Thus, individuals are likely to at least have the scope to engage in repeat transactions, especially in service industries, and for relationships between individuals in those repeated exchanges to not inevitably restrict themselves to communication of prices and quantities between consumer and producer.

The market thus creates a space for the development of personal relationships between exchange partners, as well as those we cooperate with during our economic interactions, such as co-workers. While economic interaction with the butcher, brewer, and baker may be oriented towards their self-interest in providing the goods and services rendered, they are nevertheless individuals with whom customers can have numerous repeat dealings, and thus the opportunity to develop social relationships with them. Over time, despite potentially beginning the exchange relationship as strangers, it is not necessary for this to remain the case. The continued interaction between individuals and those with whom they have long-standing economic relationships are personal experiences of those other individuals, and can often lead to meaningful relationships with them. Indeed, the entire activity of engaging in the economic transaction takes on the personal character of continuing a personal interaction: rather than going to ‘an ice cream parlor’, one might frequent ‘Josie’s Frozen Yogurt’, and ‘the barber’ is instead
replaced by ‘Joe, my barber.’ Sufficiently durable relationships between individuals and particular firms need not be restricted to individuals, as one’s connection to a particular establishment could mean that rather than changes in personnel signifying the end of the personal relationship, the meaning of the individual/establishment connection is such that it is seen as incumbent upon one or both parties to take action directed at maintenance of the relationship.

The market system as experienced at the level of action for individuals, in its concrete representation as workplaces, retail locations, service interactions, and the like, become more than the abstract impersonal discourse of the price and quantity of commodities. Rather, as Storr argues, they are social spaces, home to “many meaningful conversations beyond negotiations.” (Storr 2008: 143) These conversations can result in relationships that endure beyond the market space in which they begin, such as friendships and romances that develop between coworkers, as well as the durable relationships between individuals providing various services and repeat customers. The expansion of the market can itself be a reason for individuals to choose to reduce social distance, a process documented in Leeson (2008).

Even in cases where the market interactions that take place are not between the individual consumer and an individual producer or representative of the producer, the ideal-typical representation developed over repeat transactions has a tendency to become increasing concrete. Individuals create, and are in constant conversation with, and evaluation of, brands, as perhaps the most ubiquitous example of this kind of relationship occurring outside of a direct person-to-person contact. Corporate brands are created “to
stand as the face of a corporation, good, or service and functions as a central point of mediation between the brander and consumer.” (Hearn 2008:199) As an object of study however, branding and advertising more generally are often interpreted in a negative light: “While the object of the logo or trademark was initially intended to guarantee quality, it has now become the sign of a definite type of social identity, which summons consumers into a relationship with it. The material brand is the ultimate image-commodity: a fetish object par excellence, pursued and paid for by consumers who wish to become a part of its fabricated world of purloined cultural meanings.” (ibid:199) Yet, even within this negative, perhaps even polemical, view of the influence of branding, their essential feature as serving to create or mediate a personal relationship between the branding entity and the consumers, who have repeat interactions with the brand, is clear.

The ideal typical meaning assigned to a brand by its creator can reflect various personal relationships embodied in the commodity or service being branded, as well as reflecting various other features that serve to recommend use of the branded service over competitors, and individuals in their role as consumers can and do accept or reject these presentations with various degrees of credulity. While much work drawing upon critical theory to provide an account of consumption behavior tends to condemn the development of these personifications of products, and consider the extent to which contemporary consumers accept and engage with corporate branding, in thinking about how to conceptualize the market for the purposes of doing social science, particularly a science of meaning, branding instead becomes but one more way in which individuals experience aspects of the market as personal. These personal experiences could be intensely so,
where brands are seen and interpreted with respect to the creation of the self, and used or consciously rejected as part of a continual process of self-actualization, or they may be part of identification with a particular social group, much like club membership or political affiliation serve to anchor one’s identity. Accounts of the consumer as a creative individual constructing out of offered corporate brands and narratives a distinct individual identity are not uncommon in the postmodern literature on consumption, such as Campbell’s (2005) discussion of the craft consumer, and the various theories that view consumption as part of a discourse on agency and empowerment, summarized in Izberk-Bilgin (2010).

These elements are not meant to argue for a panglossian account of market behavior and personal relationships in market spaces. Markets, just as much as other spaces of social life, can be sources of conflict, betrayal, and dysfunction. But for there to be betrayal, there must have first been some sense of obligation and expectation of loyalty, elements that seem disjoint from the transient nature of the impersonal market and its ethic of rational legality. The brand associations develop in market interactions and that are propagated by the creators of those brands may have ambivalent or even decidedly negative associations for individuals. Much like a feud between members of the same social group creates tension, brands can make similarly conflict-increasing decisions. The publication of a borderline libelous article by The Sun in the wake of the Hillsborough Stadium disaster in 1989, for instance, led to a sustained boycott of the paper among members of the group who were the subject of the accusations, one that remains largely in force despite several public apologies and the passage of a quarter of a
century. (BBC, 2012) Indeed, individuals and groups frequently ‘take it personally’ when corporate actors violate their standards of sensible or ethical conduct.

III. Mechanisms of Personal Interaction

If the arguments made in the preceding section that at least some aspects of market relationships can and do lead to the sorts of social relationships characterized as personal, it is natural to then consider what aspects of market activities foster these sorts of interactions. This section examines some of the literature on experiences of market participation to identify some candidate mechanisms through which these personal relationships are developed. As the conceptual argument of the previous section suggested, interactions in some service industries and the relationship between consumers and brands seem particularly suited to establishing these personal connections, so examining the empirical work done on these in particular provides a useful starting point.

Service relationships can, as discussed above, have elements both of transactions revolving around the performance of some activity, and of a social encounter in which the customer and the service provider meet and interact. This mixed nature can create a dilemma for producers of services, who need to ensure that neither the transactional element nor the social element lead to consumer dissatisfaction. Supernant and Solomon characterize the difficulty of constructing service encounters as follows: “Though most people would prefer to be treated as an individual and not as a ‘number’ by service personnel, they would not want the efficiency and predictability of a service to be jeopardized by such personalization.” (Supernant and Solomon 1987: 86) Some services, by the nature of their production, allow for more elements of personalization and social
encounters than others, a dimension referred to by Goodwin (1996) as the “communality” of the service in question. This communality is the element of a service transaction that leads to the formation of social relationships separate from those of producer-consumer, and service transactions with a high degree of communality are characterized by “the presence and amount of conversation that is irrelevant to the core service transaction.” (Goodwin 1996:392, italics original) Features common to services with large amounts of communality are long periods of conversational time during the service encounter itself, long-term relationships of repeated interactions, or instead no expectation whatsoever of any repeat interaction. For services which high communality and long-term repeat interactions, the long-term relationship is a significant element in determining consumer satisfaction with the service in question, as well as the (assumedly) positive value of developing a personal relationship with another individual. Some of these benefits to the consumer can include improved or preferential treatment from service providers, price discounts, and improved service customization. (Gwinner, Grelmer, and Bitner 1998)

Tour guides for river expeditions are one service industry with a high degree of communality to the provision of the services, an element that customers were found to be receptive to upon arrival: “Guides invite the production of community, but people already seem to be prepared to perform in a communitarian way.” (Arnould and Price 1993:34) As the trip on the river continues, “guides invite and clients voluntarily transcend their passive role as service recipients (spectators) to take an active role in the production of community.” (ibid: 35) The relationships developed over the course of these river tours are considered strong enough that consumers express a desire to maintain those
relationships after the service transaction of the river tour has concluded, and “report thinking of the guide, not in service provider terms, but as a friend.” (ibid: 35) Communality is also observed in the repeated interaction between hairstylists and their clients, in contrast to the singular but intense experience of community provided by the river tour. As perhaps the paradigmatic service industry which features a large segment of time for conversation during the service encounter itself, relationships between hair stylists and their clients are documented to contain the full scope of experiences of friendships created in non-market settings, including friendships not considered reciprocal. (Price and Arnould 1999) The presence of a physical location and temporal boundaries to the relationship’s conversational time, established being tied to the location of the firm and the duration of the appointment, “may be perceived as a benefit rather than a limitation of commercial friendships.” (ibid: 51)

Communality in service relationships suggests, primarily, that contrary to the most scathing presentations of the dichotomy between market exchange and communal fraternity, the mere presence of a nexus of exchange between two parties does not preclude them from having subjectively meaningful and possibly durable relationships with others involved. Without the theoretical idea that the commercial relationship by its very nature precludes these types of interactions, the findings regarding the types of structures in which relationships form more often conform to everyday stylized facts about the structure of other interpersonal relationships.

More challenging still to the idea of the market as a fundamentally impersonal space, however, is the tendency for individuals participating in the market to create
relationships subjectively perceived as personal with entities which are not persons. As mentioned above, these relationships are often experiences that consumers have in relating to brands, either developed as the result of a concerted effort on the part of producers of the brand or sometimes, as in the case of sports teams, without any relationship-building on the part of the brand owners. (Harris and Ogbonna 2008) One manifestation of these relationships with brands is a curiosity regarding the history and products of the brand or the corporation that produces the brand, something which many brand owners are glad to offer as a way of fostering these consumer-brand relationships. Factory tours, company museums, and other attractions meant to deliver this kind of increased contact between consumer and brand is known under the label of ‘consumer experience tourism’ or ‘industrial tourism’, and is used by many major brands to create or reinforce relationships consumers have established with those brand identities. During their dramatic expansion, the placement of highly visible but glass-enclosed production lines at retail establishments can be considered as one attempt to bring the experiential aspects of industrial tourism to customers in their local market. (Mitchell and Orwig 2002)

Often, consumer-brand relationships are characterized by tensions and discomfort, sometimes resulting in mixed and possibly even contradictory attitudes towards particular brands or branding in general. One ethnographic study of food consumption among Scandinavian women for instance found that a primary element of their relationship to brands was through division between acceptable and unacceptable. The basis of these divisions, based upon self-reporting, was based in large part on their ideal-typical
conception not only of the production techniques (such as usage of food additives) but also the intended meanings of consumption of particular brands would be for their self-perception. Avoidance of certain brands based in the self-perception that one would not want to be the ‘sort of person’ who consumed foods with certain artificial ingredients is contrasted with the narratives associated with acceptable brands, such as connecting the brand with motivations considered preferable to profit maximization such as devotion to a craft or vocation, or associating the brand as a whole with personal interaction with a farmer. (Ulver-Sneistrup, Asekgaard, and Kristensen 2011)

In some cases, the ideal-typical behavior associated with a brand by consumers can lead them to impose expectations of particular kinds of behavior on the brand. Starbucks, for instance, due in part to the conscious cultivation of a brand that supports social responsibility, has been subject to boycotts directed at Starbucks as a way of expressing desires for political change, including public protest directed at actions taken by the corporation. Perhaps more remarkably, sometimes boycotts of Starbucks are based not on any action taken by the corporate entity, but merely because community members felt that the Starbucks brand, and thus individuals acting as its agents, had an obligation to the community outside of the producer-consumer relationships in the market.

Similarly, the widespread identification of Google with its unofficial motto ‘don’t be evil’, created an expectation among many users of Google services that they could be comfortable entering into the sorts of consumer-producer relationships that Google offered, expectations that have at times been difficult to reconcile with Google’s actions
as a profit-maximizing firm, such as the circumstances surrounding entry into the Chinese market.

Consumer-brand relationships, whether fostered by aggressive corporate advertising to associate particular brands with particular consumer self-images, or emergent perceptions based in the repeated interaction between an individual consumer and a particular brand without any kind of corporate nurturing, clearly seem to be able to take on a personal character, suggesting that for those consumers who form these subjective relationships, interaction in the market is clearly not merely oriented towards the commodity itself. Even more than service relationships, that the market as a social space fosters personal relationships between participants when one of the parties is, in point of fact, not properly speaking a person at all, suggests that treatment of commercial activity as being incompatible with or antithetical to social relationships is incomplete.

IV. Conclusion
The market as a conceptual space in which economic activities take place is a central element of economic theory, as well as being an aspect of contemporary society that is confronted nearly universally by disciplines of social science, approaching it with different theoretical backgrounds, divergent initial assumptions regarding the properties of market systems, and even more wildly distinct conclusions regarding the ability of markets to contribute to human flourishing. That this system is characterized by a fundamental impersonality, however, is one claim about markets that is endorsed by thinkers from all sides. While little other common ground might be supposed between Karl Marx, Adam Smith, Max Weber, F.A. Hayek, contemporary economic sociology,
and postmodern critical theorists of consumption, the impersonality of the market ensures that it is not a null set.

Even if the only source for the claim of the impersonality of the market were an argument from authority, given the stature across the social sciences of those authorities, overcoming that would be a challenge. Critical examination of some of those earlier descriptions of exactly how the market is impersonal reveals that the level of analysis at which it is described is far above the level of an individual experiences market behavior. The impersonal, hyper-rational economic actor oriented towards the transient bargain over the current commodity is a useful element of understanding the processes of markets, but individuals within the system are not interacting with members of the ideal-typical neoclassical market, nor are all transactions spot negotiations regarding securities. Given the vast heterogeneity in individual economic interactions, that there exist spaces within which economic activity not only does not destroy personal fraternal relationships, but actually serves to generate them, can help us construct a useful picture of the social world. Market interactions have the potential to become meaningful social relationships at various levels of durability and intimacy, and individuals do come to develop increasingly concrete ideal-typical conceptions of their exchange partners, even when those partners are in the form of brand representations. These two mechanisms are not presented to be exhaustive, but rather representative, of the ways in which the market is amenable to relationships. To stretch the analogy of the market as a conversation perhaps beyond its breaking point, social scientists are in the position of eavesdroppers, and
without understanding what the subjects are talking about, our picture of the conversation is necessarily going to be flawed.
The previous two chapters consider the ways in which Austrian economists have approached particular aspects of the market process. In this chapter, I return to the subject of the first, the Austrian theory of entrepreneurship and in particular, the entrepreneurial market process. In contrast to the first chapter’s focus on a particular subsidiary expansion of one aspect of that theory, the phenomenon of entrepreneurial alertness, here the debate between Israel Kirzner and Ludwig Lachmann over the theory’s relevance at all, discussed briefly before, is the central object of analysis. This debate is important to understanding Austrian economics as it has developed as a contemporary school of economic thought, both because of the centrality of the notion of entrepreneurship and as a particular example of a more general feature of how Austrian economics expands as a theoretical approach to the study of human behavior.

First, that it is in fact a debate, with somewhat clear sides of the position and concerted effort at argument and counter-argument, is important. Second, that over the course of the debate the issue at hand reveals not only beliefs regarding the initial surface claim, but also brings sharply into focus core assumptions that otherwise normally remain tacit, helps to explain why episodes of debate are so important for advancing the tradition. Finally, that Austrian economics is in a meaningful sense a tradition, seen as having a provenance from particular earlier writers with whom continuity (or at least
engagement) is a serious concern, is an aspect of Austrian economists that this debate highlights. This conception of the tradition of Austrian economics is one essential part of a broader narrative project in understanding the arc of Austrian economics within the discipline as a whole, a project only tangentially engaged in this chapter.

The equilibration debate mentioned in the first chapter and examined in more detail here is a relatively recent example of a major episode of focused scholarly debate on a particular issue of economic theory or method, with these episodes serving as the central organizing narratives of the development of the school from just one of several concurrently emerging marginalist economic schools of the late 19th century, into a consciously heterodox community existing in an uneasy tension both with the mainstream of the profession and other heterodox groups, often finding fault with methodological approaches and theoretical conclusions derived from both sides.

Tracing a brief history of these episodes of debate, the Methodenstreit, or debate over method, between Carl Menger and the German Historical School that gave the Austrian school its moniker (a nationalistic put-down), serves both as the ‘founding myth’ of the tradition, and the first distinctive position defended by those who became students of Menger. During the apex of the Austrian school’s influence as a single organized unit in the interwar years, Austrian economists, particularly Mises and Hayek, were involved in two separate and significant debates, over the possibility of economic calculation under socialism and the macroeconomics of the Great Depression. The progress of those debates, and ultimately the failure of the Austrian position to capture the support of economists as a whole for their positions, are highly formative of current
Austrian economics: both the topics under debate remain central elements of the Austrian worldview, and the way Austrian economists understand the philosophy of science and the essential features of the economic system (such as the centrality of tacit and dispersed knowledge, and the dynamic role of competition in the market) emerged as clearly articulated ideas during the various reflections on the progress of these debates.

The self-identified community of Austrian economists that has emerged in the later parts of the 20th century, a story most focally associated with Hayek’s receipt of the Nobel Prize in Economics in 1974, found itself in a very different position in inheriting this tradition from Menger, Mises, or Hayek had in Vienna: having seen Austrian economics endure a period of professional and geographic diaspora, the sudden upwelling of interest in these ideas that had seemed to be obsolete as a distinct research program meant that those who had remained within the Austrian tradition faced a problem of creatively reconstructing the scientific community of Austrian economics.

This is not to say that the professional networks or intellectual underpinnings of the modern Austrian movement were created out of whole cloth: indeed, to bypass a more extensive of the different activities of those still working within the Austrian tradition during the postwar years, we can note the publication of Mises’ English language magnum opus *Human Action* in 1949, the active participation of many Austrian economists in the Mont Pelerin Society, and that Israel Kirzner in particular was developing the ideas that would eventually become the entrepreneurial theory of the market process as early as 1967. In addition, outside of Austrian economics proper many economists, such as the UCLA property rights tradition or the Virginia School of Political
Economy, have links with Austrian thought, and might be considered ‘fellow travelers’ to the Austrian vision of economic science. Yet despite these developments, a key element in the revival narrative was the reconstitution of Austrian Economics as an intellectual tradition, one that had (at least in hindsight) incorporated into its approach a set of distinct elements that distinguished it from other schools of marginalism since the work of Carl Menger, and whose distinctive elements needed to be preserved against the approach being pursued by the mainstream of the economic profession.

The rest of this chapter will focus on how the equilibration debate in particular helps us understand this construction process, drawing upon both published scholarly writing and other, more informal sources, notably several Austrian Economics Newsletters of the period covering the debate. Section I presents the historiographical approach being undertaken here, focusing on the value for interpretation of these informal sources to being able to accurately reconstruct the underlying appreciative theory held by debate participants. Section II then presents two competing visions of the appreciative theory seen as the foundations of the modern Austrian school, one offered by Kirzner and the alternative of Lachmann. Section III examines the progress of the debate as a working-out of the conflict between these two visions, and concludes by offering some implications of this narrative for understanding both the debate’s lifecycle and understanding contemporary Austrian social organization.

**I. The Historiographical Value of Intermediate Scholarly Goods**

Objects considered the final goods of the scholarly production process, such as journal articles, books, monographs, etc., it is commonly recognized, do not spring \textit{ex}
nihilo from the minds of academics into the pages of peer-reviewed publications. Many internal students of the history of economics have been content treating only, or primarily, with those final outputs, paying relatively little attention to the production process by which they were created. These is of course good reason to suppose these are the most useful records on the conventional Whig theory of intellectual history explicitly or implicitly held by most economists: these represent the most sophisticated and carefully articulated form of that author’s thoughts at the time of publication. The intermediate levels that give rise to that final output are both more difficult to access and presumably not as fully developed (or perhaps, rigorous) than the final published version. To the extent correspondence, seminar discussions, or even the hallway chat serve to advance the research program, the Whig theory argues, this is reflected in the content of the finished product and, possibly, acknowledgements or occasional footnotes sourcing individual ideas to particular discussions.

This Whig theory popular among most economists is far less widely held among specialists in the history of economics, for whom questions of where, how, and by whom various ideas were transmitted take upon a paramount importance not only to establish the chain of historical events often lost to time, but also as one way to critically examine current theoretical foundations or render an intelligible account of how economists came to see the current approaches preferable to those discarded, rightly or not, in the past. Medema’s (2011) account of the circumstances leading to the publication of Coase’s *The Problem of Social Cost* is a particularly powerful recent example. Often the focus is on links between economists and members of other disciplines, such as the link between
economists and energetics discussed in Mirowski (1991), or between mathematicians and economists discussed in Weintraub (2002). Even for scholars of the history of economics who prefer to rationally reconstruct past theory, treatment of the informal conversations that surround a published work can help to give a complete account of the situational constraints relevant to theory construction. One such situational constraint best illuminated through an examination of these conversational inputs is the role of ‘appreciative’ theory in leading to an eventual, ‘formal’ argument.

Appreciative theory, as used by Nelson and Winter (1982), is a broad notion of theory, primarily used to give structure to observations of empirical content, and used in a complementary fashion along with other tools of analysis. More than a particular set of assertions or deductive conclusions, appreciative theory in economics “defines the economic variables and the relationships that are important to understand, gives a language for discussing these, and provides a mode of acceptable explanation.” (ibid:46) This form of explanation is often used when the problem situation confronted by the economist is one of inherent interest and the desired result is to have a coherent account of the phenomenon. This stands in contrast to theory *qua* theory, or to empirical work meant to engage in (what economists refer to as) verification to adjudicate between theoretical disputes. These other modes of reasoning are referred to as ‘formal’ theory, and typically involve a refinement of the theoretical and conceptual tools rather than on directly engaging an external problem situation. Formal theory is “stark, logical, formalized” and regards “analytical tractability and power” as its chief virtues. (ibid:46) In their account, which problems make the transition from appreciative to formal theory
is somewhat dictated by areas where such formalization is possible, a path dependency they associate with Marshall’s ambivalent relationship with mathematical reasoning in his economics. While their presentation of the role of mathematics in Marshall differs from the impression one gets in reading Weintraub (2002), the descriptions as a classification of how economists reason does not depend on the historical source.

Few arguments in economics, except perhaps the most banal instances of Kuhnian normal science within highly formal theoretical parameters, begin only as questions internal to a particular model. Taken this claim as given, this suggests a significant role of appreciative theory in the production of economic arguments, and although the move from an appreciative theoretical understanding to a formal theoretical claim seems straightforward, the source of the initial appreciative theory seems important and previously unaddressed. Here, drawing upon Schumpeter (1954), appreciative theory can be seen as arising in part out of what he calls a ‘pre-analytic cognitive act’. This sort of pre-analytical act serves to frame the development of an understanding of what is and is not meaningful about the situation under examination: the observation of the extreme complexity of the production of even seemingly simple commodities might be one example. Unless one holds a strongly Whig or presentist view of historical progress in economic science, insight into this pre-analytic motivation cognitive act seems valuable to understanding what any particular theory is meant to be capturing, and how the process of thinking about, conceptualizing, and ultimately formalizing, one’s thoughts about a subject alter the content of those thoughts. Attempting to directly access this sort of subjective and pre-analytic vision, even with access to extensive secondary materials
seems a daunting if not conceptually impossible task, and so providing a narrative of the movement from that starting point to a concrete, finished product must remain a conjectural process. This is even so when the individual involved is the one engaged in the conjecture: the imperfection of memory and the changes in perspective undergone through having done the thinking in the first place may very well render the initial process unrecoverable even autobiographically, issues considered in Buchanan and Tullison (1986) and Weintraub (2005).

Appreciative theory however, as an intermediate step between these inaccessible visions and formal theory, can aid in giving some shape to the process of development, one which students of the history of economics can hope to encounter evidence for. In this way, looking at appreciative theories as intermediate steps is itself an appreciative use of Nelson and Winter’s distinction, which they see as primarily applying to different sorts of final scholarly outputs. Along with this extension of the scope of what constitutes appreciative theory, formal theory also can be seen to have a somewhat larger scope in that, while Nelson and Winter see formal theory as being primarily conducted by mathematical modeling techniques, the distinction can be extended usefully to disciplines, such as Austrian economics, where other strategies are preferred for rending a stark, logical, and formalized statement of an idea. Within these communities, contrary perhaps to the claims of various proponents of explicit mathematical formalization becoming a universal trait of scientific discourse, arguments can and are evaluated as being more or less rigorous, as having appreciative and formal dimensions.
These extensions result in the construction of an account of scholarly production that sees a set of stages of production, each one containing a narrowing and refinement of the claims being made. A useful heuristic approach to considering these stages, suggested by advice given on how to conduct empirical work in economics, goes as follows. In the first stage, that of the pre-analytic cognitive act, the researcher articulates what she wants to be able to say at the conclusion given this initial cognitive grasp of the phenomenon in question. Of course, the later stages can always lead to modification of what the content of this is in face of the evidence! The second stage, related to the construction of appreciative theory, mediates that initial perception by the broad theoretical/conceptual framework within which the research is to be conducted, providing guidelines for which sorts of analysis ought to be conducted, still primarily bounded by common-sense. This narrowing phase thus restricts the researcher to considering the set of propositions about the phenomenon that they can say, rather than the prior set of things she would wish to say. The final stage, moving from appreciative theory (what one can say) to formal theory (what one can prove to the satisfaction of one’s scholarly peers) presents a further constraint on the contents of the research, based on the standards of proof, quality of empirical data, and other factors that determine the set of claims amenable to producing an argument judged acceptable by the scientific community in question. From a position of hindsight having reached, and perhaps having published, the results of this formal theory, there very well may remain claims with solid grounding in appreciative theory that the researcher believes to be true that remained outside of the scope of what could be
proven, and even elements of the problem situation itself which were imperfectly captured in the move between stages.

Another factor confronting the researcher in moving towards the formally stated and published work is the reality of the incentives faced within the structure of scientific production. David Levy’s (2002, Levy and Peart 2005) emphasis on the lack of immunity of economists to the implications of their own social scientific theories cannot be discarded, although the scientist as rational chooser rather than as truth-seeking agent need not suggest that all rationally choose to engage in nothing but cynical careerism. While the specter of self-serving bias is often raised in policy-relevant empirical and statistical work, understanding members of the academic community as goal-seeking purposive agents can have many far less contentious implications, where the meaning of research programs is best rendered intelligible when the motivations other than pure truth-seeking are understood. If even this claim seems overly cynical, consider further than often these other goals serve as intermediate goods meant to increase the amount of truth-acquisition in a later stage: as such, rationally choosing scholarly agents might rationally choose to engage in strategic behavior when thinking about where their scarce resources are allocated. The role that one’s work will play in serving as an example to other members of a tradition, to draw on the example in this chapter, could be deliberately constructed with that in mind, and understanding that motivation can help to explain choices regarding emphasis or topic. Appreciative theory, and intermediate objects of scholarly production, can serve a useful role as being a likely repository for information regarding these sort of strategic motivation, and can serve to illuminate the
purposiveness behind actions that might otherwise be dismissed as conventionalism or arbitrary choice, instead showing them to be non-arbitrary byproducts of other aspects of scholarship. As noted by Mata and Lee, we are currently “[missing] a story that makes sense of the academic lives and social activities of heterodox economists… Submerged by the more dominant narrative of mainstream economics, they may not be discerned from the standard sources of historians of economics, the published scholarly literature.” (Mata and Lee 2007:167-168) Having established the historiographical project in which the equilibration debate and its informal sources are being considered, we will now turn to the debate itself.

II. The Equilibration Debate: What Was At Stake?

As discussed in the introduction to this chapter, Austrian economics as an ongoing and distinct community among economists has an unusual historical arc, as well as an internal social organization that is tied to that historical narrative and the theoretical arguments of its principle members. This organization is best understood by considering Austrian economists as having a subjective perception of being the heirs to a particular intellectual tradition, shaped by episodes of debate and the realization of the distinctive nature of their conception of the market process. This perception of having this intellectual inheritance is what gives contemporary Austrian economists, from the beginnings of the revival period until the present, a richer identity as a scholarly enterprise than merely a set of open research questions and some previously prescribed methodologies. Some of the intellectual elements of this identity include an emphasis on authenticity in the articulation and transmission of the ideas of previous Austrians to new
entrants, a commitment to using those previous ideas as a framework through which current problem situations are interpreted, and a conception of that framework as plenary: that is, a good first step in thinking about how to approach a novel empirical situation in economics is to render it isomorphic to a theoretical concept or discussion already present in the corpus of Austrian writing. These elements result from a hybrid of the theoretical contents of the arguments of the Austrian school, based in the content and structure of praxeology as a science of human action, and the social and organizational forms present in Vienna during the interwar period and to a considerable extent replicated by modern Austrians.

Self-identification and participation in a tradition outside the mainstream of the profession comes with burdens, most notably the need to defend the scope, methods, and conclusions of one’s scholarship over against the set of commonly accepted mainstream practices. This creation of the scientific space through intellectual activity is the source of the perception that a large amount of the work in heterodox economics consists of polemical writing against the ‘orthodoxy’ or ‘formalism’ of the mainstream, but while this is the work that often calls out for mainstream response or consideration, internal exploratory activity is often more common and more fruitful for the research program itself. In the case of the Austrian revival, this internal exploratory activity took a somewhat surprising form, namely inquiry into what, exactly, the appreciative theoretical apparatus it was that was being inherited. While all agreed that they were united by a desire to engage in the continuation of a shared tradition, the content of that tradition was a subject of contestation brought to the foreground by the equilibration debate. Two
major positions, usefully personified in Israel Kirzner and Ludwig Lachmann, provides a clear lens into the exploratory process. This is due to a number of complementary factors, including the ease of reconstruction for one position (Kirzner) and being able to thus reconstruct the other by considering where difficulties are found between the two, the realization of the centrality of the topic of the debate to the structure of Austrian theory as a body of thought, and thus the relatively clear implications for construction of the scholarly tradition in adopting one position over another.

The rest of this section will proceed as follows in order to draw out some of these relationships. Each position, in the writers of their exemplar, will be rationally reconstructed with a focus on how their appreciative theory shaped what they understood the formal problem to be, and then look at some of how the debate progressed over its nearly two decade course among Austrians.

**A Bridge to Neoclassical Theory: The Kirznerian View of Austrian Economics**

Since the publication of Israel Kirzner’s publication of *Competition and Entrepreneurship* in 1973 serves as the opening catalyst for the debate, situating the project embodied in this work becomes the starting point. The theory of the entrepreneur, and the entrepreneurial market process, including an account of the motivation for its development, have already been explored in some detail in the first chapter, but here rather than focusing on how the project gives rise to the particular form taken on by alertness, the theory is considered in the context of setting out a vision of what Austrian economic theory and practice consist of.
Kirzner, a direct student of Ludwig von Mises at NYU, sees his theory of entrepreneurship as the result of sustained consideration on the meaning of two of Mises’ most iconic dicta: “the market is a process” (Mises [1949]2008:258), and “in any real and living economy every actor is always an entrepreneur.” (ibid: 253) However, central to Kirzner’s project, which he describes as “expounding the profound insights contained in the works of my teacher, Ludwig von Mises” (Kirzner 2014) was that those insights could be, and were, relevant to solving the problems faced by his neoclassical contemporaries in economics. As discussed in the first chapter, the most obvious application of the theory of the entrepreneurial market process was to correct the problem of disequilibrium price adjustment in the neoclassical model of the market. Entrepreneurship can resolve this problem, in contrast to the then prevailing view, described by Kirzner as follows: “so long as we perceive all decision-makers as exclusively Robbinsian [purely maximizing subject to given constraints], each ‘mechanically’ selecting the best course of the alternatives believed to be available, our theory completely lacks a way of explaining how yesterday’s plans are placed today by new plans… There is nothing in the picture of a market of purely Robbinsian decision-makers… which can explain how yesterday’s market experiences can account for changes in plans that might generate alterations in prices, in outputs, or in use of inputs.” (Kirzner 1973:70-71)

This problem in the formal theoretical structure of the neoclassical market, one which clashes with the appreciative theory regarding the coordination of market activities, is just one of several applications Kirzner sees of an understanding of the
entrepreneurial element of the market process that ought to lead to the adjustment of the practices of working neoclassical economists: after the initial two chapters presenting the core theoretical apparatus, the remaining four chapters are devoted to areas of economic investigation where the singular emphasis on the state of perfect competition, rather than the competitive market process, had led empirical conclusions astray, such as the economic theories of advertising, selling costs, and monopoly. Kirzner’s arguments here, albeit from a distinct theoretical foundation, closely resemble arguments made by those influenced by the UCLA property rights tradition, such as Alchain and Demsetz. But, as complete as an inversion of the practice of neoclassical economics as acceptance of the importance of market processes rather than equilibrium as the core situation under analysis in economics, which Kirzner proposes moving to “special cases of some subsidiary interest to theorists” (Kirzner 1967:788), the core of what it would mean to be an economic theorist remains unchanged. For Kirzner, the appreciative theory preserved in the Austrian tradition is precisely this orientation towards the study of market processes rather than equilibrium states. The market process is the central animating vision of the work of Ludwig von Mises, in Kirzner’s interpretation (Kirzner 1973), and, in a 1997 interview, he presents his own work in the following role: “I’ve been accused of turning Austrian economics into a footnote of neoclassical economics. I think that is incorrect. But I would accept the word ‘bridge’. It is a bridge in the best sense of the term… The idea of the entrepreneur enables us to see how there might conceivably be an equilibrium system, or why an equilibrium system might be of any interest to us.” (Kirzner 1997) While Kirzner’s theory of entrepreneurship also has numerous other
antecedents, notably including his work examining the history of economic thought (and possibly even his theodicy), the position of the theory, and indeed of Austrian economics is clearly within a (properly corrected) neoclassical economic world.

**A Science of Meaning: The Radical Subjectivist Program of Ludwig Lachmann**

In contrast to the placement of Austrian economics as a tradition as articulated by Kirzner, the inheritance of the Austrian tradition as understood by Ludwig Lachmann is one engaged in a conceptually separate project from what was then (and now) ongoing in economics. Central to these differences is a drastic shift in emphasis as to what the central elements of the inheritance of the Austrian school consisted of. While for Kirzner, the market as a process is the source of Austrian distinction, the core elements of Austrian economics in Lachmann’s view were as follows: First, “a radical subjectivism, today no longer confined to human preferences to but extended to expectations… Secondly… an acute awareness of the many facets of time that are involved in the complex network of interindividual relations… [Third] a distrust of all those formalizations of economic experience that do not have an identifiable source in the mind of an economic actor.” (Lachmann 1978a: 1-2)

For Lachmann, Austrian economics is most accurately, and most usefully, situated in a consciously heterodox position opposed to the Keynesian macroeconomic apparatus as well as neoclassical general equilibrium theory. The implications for particular constructs of the radical subjectivist approach is nearly always devastating if that approach is accepted: subjectivism extended to expectations requires, for instance, abandonment of any notion of even a dynamic concept of equilibrium, and demotes “the
assertion of a [Kirznerian] ‘tendency’ towards such a state of affairs [to one that] has to be qualified by adding that it is one among others.” (ibid: 5) Rather than in emphasis from equilibrium states to market processes, Austrian radical subjectivism is a call for a drastic reimagining of what constitutes economic science. In additional contrast to Kirzner, Lachmann’s presentation of what the Austrian tradition contains features a relatively larger emphasis on Carl Menger and his thinking as the originator of the tradition, and an idea that the limitations of the neoclassical model are insurmountably linked to that model space. Where Kirzner sees the careful addition of Austrian insights into neoclassical economics as a minimal disruption and corrective, for Lachmann the neoclassical apparatus is itself to be overturned.

Lachmann’s articulation of the Austrian project consciously adopts the goal of serving as a continuation of the methodological approach of Max Weber, one Mises participated in and attempted to extend, themes developed throughout Lachmann’s career in his writings. (Lachmann 1951, 1971) Central to this Weberian account of praxeology are the subjectivity of expectations and the role of time in human affairs, areas where another influence on Lachmann’s thought, the work of G.L.S. Shackle enters most directly, a connection also noted in the first chapter, work that had a profound influence on Lachmann, who writes “I can think of no one more distinguished or important to the fundamental Austrian ideas than Shackle.” (Lachmann 1978b) Again, the systematic departure from Kirzner’s approach continues, as for Kirzner, Shackle’s project is located on an entirely different level of analysis than that occupied by economic theory. (Kirzner 1967)
Once equilibrium is abandoned, the radical subjectivist research program calls for a modification of the self-image of the economist as a producer of knowledge: “insofar as [claims about] the future is concerned, economics will have to become far more a descriptive discipline than it is at present… Above all, Austrian economists will want to trace market processes of the past.” (Lachmann 1978a: 16-17) These historical investigations, proceeding along Weberian lines, will seek to render those events meaningful and intelligible (Lachmann 1971), and should pay special focus to the role that market activity plays in the development of institutions, an insight traced back to Menger. (Lachmann 1978a: 17) Explicitly placing the investigation of institutions and their relationships with market activity in the realm of what a radical subjectivist economics ought to focus on is another point of departure from Kirzner, who is careful to restrict his analysis to situations within a given institutional setting, leaving the question if the theory can be extended at all, and if so how, to others, a question considered in Boettke (2014), as mentioned in the first chapter.

III. Appreciative Theories, Formal Debate

Individuals within the Austrian tradition during the period of the debate confronted two mutually exclusive positions, each simultaneously claiming to be the authentic inherited appreciative theoretical apparatus, the exposition of which was the broadly-construed end of being a member of this tradition. To adopt one or the other meant taking a stance on theoretical issues, methodological emphasis, and even academic strategy. As suggested by Kirzner, adopting his view of Austrian economics meant a closer affiliation with the neoclassical approach, serving as a corrective voice and
attempting, as the theory of the entrepreneurial market process does, to correct the defects
their theory by key Austrian insights. Lachmann’s position, on the other hand, would
suggest a more polemical approach to neoclassical theory to go along with the criticism
of Keynesian macroeconomics, and a strategy within economics of emphasizing links
with other heterodox groups, most clearly Post-Keynesians.

The debate over equilibration as a formal theoretical claim about how to
understand the market process reflects simultaneously the sincere disagreement about the
truth of that claim, and served as a vehicle for articulating the competing visions of the
theoretical, conceptual, and professional space the tradition would inhabit. Especially
given the emphasis within the tradition of communication between scholarly generations,
and ensuring the authenticity of that transmission in contrast to what are seen to be failed
attempts at a Whig-inspired adoption of the wheat while discarding the chaff (see Boettke
and O’Donnell 2013), the fact that the debate had such powerful forward-looking
implications is one of the factors explaining the intensity and duration of the debate, and
the seeming need for the interlocutors participating who were members of scholarly
generations younger than that of Lachmann and Kirzner to self-identify onto one side or
another at some point.

Of course, this grand narrative of the ex post ramifications of the debate was not
readily at hand during the opening stages, a series of papers presented in the second half
of the 1970s. Much of these initial efforts surrounding the controversy regarding
equilibration were attempts to clarify exactly what theoretical claim was at stake and
what positions had been articulated. Here, O’Driscoll (1978) provides a starting point by
presenting a summary of papers presented by Kirzner and Lachmann at the 1975 ASSA meetings, papers which would eventually be published in Kirzner (1979, ch 2), and (Lavoie, ed. 1994a, ch 13). Each of these papers were, ostensibly, about the thought of F.A. Hayek, but as O’Driscoll points out, such significance for the ongoing disagreement between them that the absence of a direct exchange within the papers is a notable omission. While his analysis is ultimately critical of Lachmann’s approach to questions of equilibrium, a problem that is subsumed for O’Driscoll under a conception of the existence of spontaneous order in the market, questions both of semantic meaning and substantive argument are still unresolved.

Clarification of the debate moves then from papers presented at the biggest conference of the economic academic year, to responses published in the Austrian Economics Newsletter, published out of New York, the scholarly hub of Austrian activity at the time. The Spring issue of 1978 contains a brief history of the NYU Austrian Economics Seminar in the 1975-1976 academic year and contains some mention of the controversies, but in the context of differences between Lachmann’s position of ‘nihilism’ against the ‘Ricardianism’ of Murray Rothbard. Differences between Lachmann’s approach and Rothbard’s would ultimately lead to a series of acrimonious exchanges over the use of hermeneutics in economic science, a subject briefly touched upon later in this account. It is however, Lawrence White’s article in the Spring 1979 issue that begins an illuminating series of exchanges in the newsletter. Much like O’Driscoll, White’s article attempts a summary of the debate, along with contributing some remarks of his own on the issue in question. White presents three areas in need of
additional clarity: “(1) the meaning given to ‘tendency’ in this context; (2) the temporal perspective (\textit{ex ante} or \textit{ex post}) from which market processes are viewed, and (3) the particular conception of general equilibrium employed.” (White 1979) On the first issue, White argues that while a tendency towards equilibrium could be interpreted as a claim that general equilibrium would be reached under some given conditions, it may be preferable to instead adopt from Hayek the idea that the tendency is instead for economic variables to be ‘near’ to a general equilibrium state. Making clear if the analysis is about a forward or backward looking temporal horizon, since Kirzner’s theory seems only to accommodate an \textit{ex post} understanding (since the equilibrating role of successful entrepreneurship can only be judged as successful in the context of \textit{ex post} evaluation), in contrast to the emphasis on the reconciliation of plans \textit{ex ante}, or the impossibility thereof, in Lachmann. On the issue of what general equilibrium was at stake, White sees Kirzner as being comfortable with a conception of general equilibrium consistent with the conventional picture in neoclassical economics, and thus perhaps being more vulnerable to critique than other ‘dynamic’ theories of equilibrium.

The next issue, in the Fall of 1979, contains another series of exchanges between Lachmann and White, under the heading “On the Recent Controversy Concerning Equilibration.” Lachmann opens with a reply to the article by White from the previous issue, and begins with what initially seems to be a puzzling explanation for his relative silence on the questions regarding interpreting his thought: “I have thus far refrained from commenting on an issue I could not understand.” As he goes on to explain, one source of his bewilderment at the responses regards why his interlocutors have such a
keen interest in preserving general equilibrium, where they “seem to be willing to die in the last ditch for a cause that is not theirs and the outstanding exponents of which, from Pareto to Hahn, have never concealed their contempt for Austrians and their ideas.”

Moving on to the questions of theoretical clarification, Lachmann stresses the factors that arise as a consequence of subjectivism that complicate the account of equilibration offered by White. In particular, the fact that adjustment to changes is a subjective (and thus created and unpredictable) behavior is an important factor in establishing the sort of equilibration under consideration, one where the model’s assumptions are fatally flawed. “Learning from our mistakes,” Lachmann counsels, “as from other experience, is a problem-solving activity, and none of us can take his success in it for granted.” We cannot, in Lachmann’s view, be relying on the speed of learning to outpace the speed of changes to ‘objective circumstances’, the sorts of things eventually called ‘underlying variables’ by Kirzner (1992). In response, White remarks that Lachmann has clarified matters, since one question previously unresolved had been if Lachmann was prepared to “affirm a belief in spontaneous order, i.e. affirm that markets do succeed in coordinating plans.” For White, this response resolves this question in the negative.

An interesting observation about this particular exchange that perhaps reflects the influence of Kirzner’s vision of the scope of economics is the use of the term spontaneous order, both here and previously by O’Driscoll, in a way seemingly synonymous with the existence of equilibration. In comparison to this usage, contemporary Austrian use of spontaneous order tends to refer to a broader class of phenomena, of which the market order is a subset, albeit a central one. In contrast to the
belief in spontaneous order being identical to belief in equilibration, contemporary
Austrians would at least find coherent a claim to believe in spontaneously ordered
systems, and the importance of spontaneous order for theorizing, without simultaneously
affirming a belief in equilibration.

Lachmann’s response which closes the exchange in this issue of the newsletter is
a plea for Austrians to avoid replacing the empirical study of real phenomena, such as
markets adjusting, with their ideal-typical conceptions. This is consistent with the
reconstructed picture of the interpretive science of meaning envisioned by Lachmann, as
well as other remarks where he stresses the importance of historical investigation. In
discussing the matter of disciplinary affinity between the Austrians and other schools, he
remarks that “What also I take it we have in common [with Post-Keynesian economists]
is a general interest in the facts. After all, we are living in the same world, and it is
assumed the facts matter, a proposition which in Chicago doesn’t seem so readily
accepted.” (Lachmann 1978b)

Having found no resolution to the debate, either as to the particular status of the
idea that Kirzner’s entrepreneurial theory providing a tendency towards equilibrium or
the presence of that tendency in any form, discussion continued on into the 1980s.
Publications of conference proceedings or festschrifts provide the major source of
scholarly essays from Austrian economists in this period, with volumes such as New
Directions in Austrian Economics, Method, Process, and Austrian Economics, and
Subjectivism, Intelligibility, and Economic Order as prime examples. For Kirzner and
Lachmann, along with contributions to volumes like these, collections of their essays
were also published. Several of these conference volumes contain both the initial presented essays and a shorter response by a commentator, a publication format well suited to highlighting the debate when the topic arises.

Given his initial undertaking to serve as a corrective to an excessive focus on equilibrium situations in neoclassical economics, Kirzner’s position of now having to defend his theory primarily not from those wanting to retain the status quo, but instead from scholars arguing that the entire conception of equilibrium needed to be discarded must have been an unexpected development. Indeed, sometimes his description of having set out to engage in radical, though immanent, reform, only to find that a still more radical fringe saw him as an excessively accommodating critic, can at times border on the ironic, as in Kirzner (1992, ch 1). Anticipating a debate in which he was the extreme, instead circumstances had resulted in the inversion of a process described by David Levy (2002) in the case of classical economists. In Levy’s account, the perception of political economists as occupying a position on the political right is an unintended consequence of their complete success at delegitimizing the pro-slavery faction (who were farther the right on account of demanding not only the sanctity of property in things, but the sanctity of property in persons), to the extent that those ideological approaches no longer existed in our consideration of the political spectrum, at least in the Anglophone world. For Kirzner, the process was reversed, and in virtue of the emergence of the radical subjectivist challenges to economics, including both Lachmann and other heterodox groups such as Post-Keynesians, had become a ‘moderate’.
This change of position presented a rhetorical challenge for Kirzner, since now justification for the scope and method of his approach required both convincing neoclassical economists to move away from the obsession with equilibrium and preventing radical subjectivism from burning the entire structure down and leaving economic science with nothing. Borrowing a phrase from Roger Garrison (1982) where he argues this is a general feature of Austrian theory, Kirzner adopts the idea of Austrian economics as the “middle ground” between the ‘equilibrium always’ view of neoclassical economists and the ‘equilibrium never’ view of radical subjectivism. This focus on his position as the middle ground between two unpalatable extremes becomes an element of his continued explanation and expansion of the core theoretical claim, which has remained remarkably consistent over four decades. Even when various critical readers see particular changes in emphasis or concessions as significant alterations, including arguably the comments regarding Kirzner and Sautet (2006) in the first chapter, it remains the case that “one can regarding all of Kirzner’s post 1973 work on entrepreneurship as so many footnotes to his path-breaking book.” (Vaughn 1992:253)

The use of the ‘middle ground’ as the space within which to insert Austrian insights into contemporary economics in both Kirzner and Garrison show one path to establishing a realm within which the effort of consistently justifying the approach being taken can be eliminated, both scholars navigating defending their interpretation of the Austrian approach. For Garrison’s project in macroeconomics, Austrian Business Cycle Theory represents a middle ground between the dominant paradigms in the theory of business cycles, since it incorporates the non-neutrality of money while simultaneously
arguing for the generally coordinative properties of intertemporal markets. The instrumental value of the observation of Austrian economics as located in the golden mean between undesirable theoretical extremes does not in any way render it untrue, but viewing these decisions about scholarly rhetoric through the lens of the need to create (or re-establish) a disciplinary space within which meta-economic considerations were treated as settled and normal science within the Austrian paradigm could be undertaken aids in the intelligibility of the choices made by members of the tradition.

It should be stressed that, in contrast to some internal debates even within the Austrian tradition, the continuity of both sides as participating in determining the contours of a shared heritage seems not to have been in question. Partially, the phenomenon of emerging from the diaspora of the postwar period likely suppressed at least for Kirzner and Lachmann any desire to schism, although the same circumstances did little to deter Rothbard, as can be seen on numerous fronts over his career. Even if, as was clear perhaps by the middle of the 1980s, the generational continuity of scholarship in Austrian economics was no longer threatened, the sense of a shared intellectual heritage, even if the focal content was drastically altered between the two camps, served both as a unifying feature and one reason for the duration of an argument that eventually ceased to be a subject of active inquiry: since the two sides were otherwise intellectually similar on so many other margins, the belief that the marginal argument aimed at persuasion of the other side that their position was untenable or did not offer a useful research program for subsequent Austrians likely always seemed reasonable.
Despite this, the debate seems to have finally stalled in the early 1990’s, so that the publication in 1992 of Kirzner’s *The Meaning of Market Process* can serve as a useful cutoff point. Several factors contributed to the end of the debate, chief among them the passing of Lachmann in 1990, which silenced one of the original interlocutors. Had there been interest in actively engaging with Kirzner’s reply in 1992, there were certainly individuals who could have done so, but other internal controversies instead became the focus of contestation over who and what constituted the Austrian tradition. The re-entry of Rothbard into the debates in a particularly polemical fashion in the second half of the 1980s saw disputes between Austrians influenced by Lachmann and those influenced by Rothbard shift from being about equilibration into the debate over hermeneutics and the dehomogenization of Mises and Hayek. While as sociological representations of two culturally distinct groups of Austrian economists there is undeniable continuity between the divisions in those debates, the formal content of the arguments shifted away from an explicit focus on equilibration. The simple fact that at this point, as noted by Kirzner in his obituary for Lachmann, they had spent two decades “locked in a friendly (but quite insoluble) disagreement… on certain fundamental points of economic understanding.” (Kirzner 2000:287) no doubt contributed to a lack of desire to continue discussions explicitly along these lines.

While the positions of both parties convey a valuable insight into the role the debate’s various statements, particularly early on, as vehicles for proposals on what the internal theoretical organization of the reviving Austrian tradition would look like, given Lachmann’s statement from the 1979 exchange and Kirzner’s comment on the
insolubility of the disagreement, one of the many puzzles in explaining the particulars of
the debate is how it lasted as a live issue for two decades. One possible explanation is that
the same careful and consistent reasoning that makes Kirzner’s theoretical contribution so
compelling and easy to highlight also serves to create moments where subtle distinctions
he makes throughout his work can be, at various points, easier or harder to discern. One
such distinction is his preservation of a sharp distinction between the psychology of
choice as the subject of analytical investigation, and the level of analysis at which
economic theory operates. The relative lack of this distinction in the radical subjectivist
conceptual framework, or possibly even a conscious denial of the existence of such a
clear separation between the two, could have led to the appearance of a possibility of a
compromise position. A complete account of the debate through this lens would require a
careful textual exegesis of the relevant works, a task which is logically posterior to
construction of a valid meta-narrative such as the one suggested in this chapter.

The waxing and waning importance of this debate in terms of framing the
development of Austrian economics is another reason having an acceptable account of
the debate, both at the level of the meta-narrative and a retrospective textual examination,
would help to render the current organization of Austrian scholarship intelligible. Rizzo
and O’Driscoll’s *The Economics of Time and Ignorance* (1985), a theoretical work in
which the difficult position of the authors in needing to navigate an account of the
foundations of Austrian economic theory within the context of the equilibration debate is
particularly noticeable, has had an interesting but highly asymmetric trajectory in
subsequent Austrian economists, a phenomenon documented and considered in Stein and
Storr (2013). The story of that book is in many ways a concrete microcosm of the path of the formal content of the debate, from a prominent and formative role on individuals beginning their scholarly career during the latter half of the 1980s, to being nearly absent in later generations of Austrian scholars. Equilibration and the surrounding debate simply seem not to be particularly focal theoretical ideas for getting on with the business of doing Austrian economics, in the same way that the framing of ideas in Rizzo and O’Driscoll is orthogonal to those projects.

This nearly complete dissipation of the impact of a topic which occupied many of the intellectual leaders of the Austrian revival and their students on and off for two decades from contemporary scholarship in Austrian economics might seem to pose a challenge for the broader meta-narrative of the Austrian school as a tradition shaped primarily by episodes of debate revealing fundamental insights about the distinctive features of praxeology as an approach to economic science. Surely if that narrative is to be true, something with the significance to those involved that this issue held, at such a pivotal time in the organization of the movement, would then retain its status as part of the canon of Austrian insights, much the same way the calculation argument or dispersed and incomplete knowledge have? Again, here the meta-narrative of the debate itself that is satisfactory is logically prior to a detailed answer to the question, but certain elements of the discussion in this chapter suggest a response.

Explaining the absence of contemporary impact of the equilibration debate requires thinking about the eventual narratives of those formative prior debates, and the determination of the key conceptual features of the Austrian approach which follow from
them, as a particular form of theoretical activity in drawing those narratives into the extended present of Austrian economics. This kind of retrospective analysis takes the raw material of an extended, often multifaceted conversation going on between multiple parties, in multiple venues, over decades, and transforms that into a capital good that can be then used by other scholars. The intellectual effort that goes into the careful distillation of these debates is a prerequisite to its general use, one of several elements contributing to the traditional emphasis within Austrian scholarship on history of thought. Works such as Hayek’s collection and publication of *Collectivist Economic Planning* in 1935, book length reconsiderations such as Don Lavoie’s *Rivalry and Central Planning* (1985), along with articles pursuing a similar project such as Kirzner (1988) are the factors that produce out of the raw material of prior scholarly conversation the analytical tool of the centrality of calculation to economically efficient production. In the case of equilibration, fewer of these narrative redactions have been attempted, particularly not with the aim of orienting any of the possible narrative accounts towards application in a progressive research program in Austrian economics. The lack of a clear resolution or the possibility of such is of course an important aspect of this absence, as well as the fact that one of the most complete summaries of each position, that of Vaughn (1992), is written from the perspective of the debate as an ongoing concern, precisely when it instead served as almost an obituary.

Given this argument, the particular account of the debate’s sources serves as an initial step of this process of distillation from a history of the debate as little more than a glorified annotated bibliography, and instead moving towards a set of conceptual tools
that can contribute to understanding and engaging in contemporary research. With the focus this chapter places on the implications each view has on the space occupied in economics by Austrian work, some of these visions are already extant in the current structure of scholarly production, since the brute fact of the existence of Austrian economists suggests that there does exist a space in the profession occupied by those individuals. Again without committing to an extensive survey of contemporary Austrian literature’s topics, inspirations, and theories, a few stylized facts might suggest that on at least some margins, while Austrian economics curtsies to Kirzner, they dance with Lachmann. These include the emphasis on analysis of institutions and institutional change, an emphasis on historical understanding particularly through the use of analytic narrative, and following another notable aspect of Lachmann’s contributions, an emphasis on a subjective, disaggregated view of capital goods production and use. This does not suggest that any of these are per se ruled out by adopting Kirzner’s approach to developing Austrian theory, but they certainly resemble more the vision of a science of meaning than the essentialist contributions of Kirzner. To conclude on a note of slight irony, one of the primary complaints often leveled at Lachmann’s vision for the theoretical character of Austrian economics is that turning his analytical vision of how the world around us operates into an actionable research program of economics is difficult or impossible to imagine. Yet if the narrative of the equilibration debate, including the reconstructions of the visions of what Austrian economics consists of, as well as the stylized facts presented above are correctly interpreted, the correct response is to look at what it is that most Austrian economists currently do.


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BIOGRAPHY

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