

Kirzner on Mises's Consumer Sovereignty

In Light of the Market as a Process

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Abstract

Consumer sovereignty and its quintessential counterpart – the entrepreneur function – played indispensable roles in Ludwig von Mises's effort to achieve his major purpose of enabling the economist to make praxeology-based, value-free evaluations of arguments in favor of or against market intervention. This required the achievement of two sub-purposes: to identify a practically unobjectionable criterion for evaluating interventionist arguments and to bind economics to praxeology. Mises felt it necessary to achieve these sub-purposes in order, respectively, (1) to bring sound reasoning to policy evaluation and (2) to protect economics from attacks by enemies of economics and proponents of an economics based on a non-praxeological foundation.

Israel Kirzner, a former student of Mises, has largely disregarded Mises's purposes, while praising Mises contribution to the "market process." Correspondingly, he has depreciated two concepts that were essential building blocks of Mises's market process: consumer sovereignty and the entrepreneur function. This essay aims to put Mises's market process in the proper context. It uses passages in Mises's *Human Action* to help describe consumer sovereignty and its relationship to the market process. It then compares this analysis with Kirzner's interpretation of Mises on the same subjects. It also compares Mises with Kirzner on how to deal with arguments favoring market intervention. Since this was Mises's most fundamental goal, such a comparison helps to reveal the difference between the two Austrian economists.

The essay finds that Kirzner's interpretation of Mises is shallow and that his approach to policy issues is quite different from Mises. These findings point to a failure by Kirzner to form a sufficiently deep understanding of Mises's economics to be a reliable source for knowledge of Mises's most important ideas.

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In Light of the Market as a Process

Mises's economics, as it is known today in the US, has been filtered through the teachings of his two main American students, Israel Kirzner and Murray Rothbard. Most of the modern neo-Austrians are either students of Kirzner or Rothbard, students of their students, or students farther down the supply chain. Regrettably, these writers have filtered out the ideas that are most fundamental to understanding of Mises's economics. In combination with Mises's own convoluted writing style, these misleading interpretations have resulted in a situation today in which there is a real risk that Mises's pathbreaking Austrian contributions to economic thought will be lost to posterity.

I suspect that the majority of neo-Austrian economists today believe that Mises's principal contribution to economics in his later years was his notion that the market is a process. The main proponent of this view has been Kirzner. In this essay I present and defend the view that Kirzner failed to identify the role that Mises's market process played in his economics. This failure underscores a more fundamental failure to understand and transmit Mises's economics to subsequent generations of neo-Austrians and, perhaps more importantly, to the numerous other students of market interaction and market intervention. While Mises made an unprecedented and heretofore, unappreciated contribution to these subjects, his presentation deficiency made this contribution nearly impossible for any but the most fastidious and knowledgeable readers to comprehend. Instead of helping to correct for this deficiency, Kirzner seems to have made matters worse. The purpose of

this essay is to provide a more complete guide toward understanding that process and to show how Kirzner's misinterpretation led him down a different trail than the one blazed by Mises.

Kirzner's interpretation overlooks Mises's achievement of two goals that Mises regarded as most important. The first is the idea that economics, the theory of action under market economy conditions, is a branch of praxeology, which is the general theory of action. One must recognize this contribution in order to avoid the propensity to treat distinctly human actors as robots or animals, as mathematical economists are inclined to do. Human actions are deliberately chosen and may entail imagination, creativity, and inventiveness. They are neither programmed nor mere predictable responses to stimuli. Mises achieved this first goal with his definition of the entrepreneur function as the sole cause of want satisfaction and the sole bearer of uncertainty. The second overlooked achievement is Mises's extension of the classical insight that there are gains from trade due to specialization and the *division of labor*. Mises referred to this insight as the theorem of the harmony of rightly understood interests. He incorporated this insight into what I call the theorem of consumer sovereignty, which he presented by employing the entrepreneur function. As elucidated by Mises, this function entails *always* being the mandatory of the consumer.

The essay begins in part 1 with a brief statement of my interpretation of consumer sovereignty in Mises's *Human Action* (1966). In part 2, I describe Mises's market process idea, as it was presented in *Human Action*. Part 3 presents Kirzner's interpretation of Mises's consumer sovereignty and shows that he failed to account for the theorem of the harmony of rightly understood interests or for Mises's desire to bind economics to praxeology. Part 4 shows how Kirzner's failure to appreciate the broader context of Mises's market process discussion led him to present a criterion for evaluating

interventionist arguments that was very different from that of Mises. The essay ends in part 5 with a brief conclusion.

1. SUMMARY OF THE ROLE OF CONSUMER SOVEREIGNTY IN MISES'S ECONOMICS

The ultimate goal that Mises set for his economics is to evaluate arguments for and against economic intervention that are made by utilitarians who understand and approve the potential benefits that can be achieved by a division of labor.¹ An equivalent way to characterize such arguments is to say, following Mises, that they are made on the basis of the theorem of the harmony of rightly understood interests (THRUI) (Mises: 673-4). He recognized that such an economics would not be relevant to ascetics (*ibid.*: 178-9) and to others who do not appreciate or care about the higher productivity that is achievable by a division of labor.

To apply this theorem to market interaction, Mises transformed it into the theorem of consumer sovereignty (*ibid.*: 664-5, 269-272, 240). To do this, he built an image of a pure market economy and defined the entrepreneur function as the cause of *all* consumer goods production and bearer of all uncertainty (*ibid.*: 252-4). He defined the entrepreneur function in such a way that it is the mandatory of the consumer (*ibid.*: 358).

¹In this part, I present appropriate page references. However, Mises's presentation of the role of consumer sovereignty is convoluted and there is no space here to provide the more detailed interpretation that a completely convincing argument may require. The reader is referred to my companion essay (Gunning 2009).

For the entrepreneur function, consumer sovereignty has no exception. However, besides acting in an entrepreneurial capacity, individuals also act as owners of goods and resources (*ibid.*: 358). An owner of a good or resource who is trying to maximize money income may gain from charging a monopoly price. She withholds some amount of the item in order to charge a higher price. She does this even though the lost consumer benefits, in terms of money, are lower than the additional benefits to the owner. Individuals also act as consumers and resource suppliers; so it is possible that a person may decide not to perform an action for which entrepreneur profit seems positive to an outsider. Her loss *as a consumer* of leisure or of some related satisfaction may outweigh her expected gain in profit, as viewed by the outsider. For example, an employer may choose to employ a relative as an assistant instead of an equivalently-qualified non-relative, even though the latter offers to work for lower pay. Such cases do not constitute a violation of consumer sovereignty because the individual who is responsible is acting as a consumer.

Besides helping to evaluate interventionist argument, the concept of the entrepreneur function performs a second service for Mises. It helps him maintain a bond between economics and praxeology. Maintaining this bond helps the economist “trace back all theorems to their unquestionable and certain ultimate basis, the category of human action” (*ibid.*: 68).² The isolated actor has ends and he uses means to satisfy them. In market interaction, the ends are assigned to the consumer role. The use of resources to produce goods for consumers and uncertainty-bearing is assigned to the entrepreneur function. This means of employing the entrepreneur function helps the

²That Mises used the entrepreneur function for this purpose must be deduced from a careful study of Mises’s treatise. The reader should focus specifically on his section on “The Procedure of Economics,” (*ibid.*: 64-9) his part 3, and his chapter 14.

economist isolate all of the distinctly human action the result of which is a tendency toward the satisfaction of wants from the mere behavior that is necessary but which could be performed by animals or robots.

It is not difficult to show that Mises employed the concept of the entrepreneur function for these purposes. However, his desire to emphasize that “everyone is an entrepreneur” led him to employ a number of other terms as substitutes. For example, he writes that consumer sovereignty applies to “entrepreneurs, capitalists, and farmers,” to “capitalists, entrepreneurs, and landowners” (*ibid.*: 270) and to “owners of the material factors of production and the entrepreneurs” (*ibid.*: 272). His meaning is that the entrepreneur function is performed by these different individuals under the conditions of the pure market economy. Another term that he uses is “entrepreneur capacity” (*ibid.*: 358). He writes that the “entrepreneur in his entrepreneur capacity” is always subject to consumer sovereignty. He distinguishes between this and individuals in their capacity as owners of the factors of production, who may charge a monopoly price (*ibid.*: 358). The most common term, however, is “entrepreneurs and capitalists” and “capitalists and entrepreneurs,” as indicated by a word search of the treatise. What he has in mind is all of these cases is: individuals in their performance of the entrepreneur function. To avoid using a variety of terms, I use the term “entrepreneur role.” Because it represents distinctly human action, its properties can be defined as appraisal, undertaking and uncertainty-bearing. The entrepreneur role is responsible for all of the identification of factors and comparisons of the profitability of using them in different production projects, it is responsible for direction and control of all production, and it bears all uncertainty. Why Mises did not also use this term or its equivalent is a puzzle.

2. THE MARKET PROCESS IN *HUMAN ACTION*

The concept of a market process in a pure market economy played a part in helping Mises achieve his main purposes of enabling the economist to make praxeology-based, value-free evaluations of arguments in favor of or against market intervention. To achieve this purpose, he had to (1) identify a practically unobjectionable criterion for evaluating interventionist arguments and (2) build economic theorems in which economics is bound to praxeology. A summary of Mises's market process is as follows. In market interaction, differently endowed individuals communicate by means of forming markets and announcing, negotiating and accepting prices. Then they consummate the exchanges by performing the agreed-upon actions. Each person acts in her self-interest in an environment of competition. In an effort to earn profit, differently-talented individuals acting in the entrepreneur role expand the division of labor, distribute the gains of progress and select out the factors of production that are less suited according to the theorem of consumer sovereignty. Also in accord with consumer sovereignty, these competing individuals identify factors of production and then allocate them to the production of various good that become available for consumption at various times. The combined efforts of these individuals culminate in a set of prices of consumer goods and the factors of production at various links in a set of factor supply chains. Mises called such interaction and its outcomes in a pure market economy the "market process."

Introductory Statement

To understand how Mises defined "market process" in his treatise, it is necessary to closely follow his description of the *market economy*. The context for this description is what he calls the incontestable procedure of economics (*ibid.*: 238). The ultimate goal of the procedure is to evaluate interventionist arguments. The procedure consists of two steps. In the first, he presents a series of chapters in which he elucidates interaction under the conditions of the *pure* market economy (part four, chapters 14 to 24). In the second step, he presents a series of chapters in which he evaluates various arguments relating to intervention (part six, chapters 27 to 36). He introduces the pure market economy in Chapter 14 with a definition (*ibid.*: 237-243). In chapter 15, he explores interaction under pure market economy conditions in greater detail. His lead paragraph in the chapter begins with a short definition: "The market economy is the social system of the division of labor under private ownership of the means of production." In the second paragraph, he distinguishes between the market economy and the *market*. He begins this paragraph with the sentence: "This system [i.e., the market economy] is steered by the market."

His third paragraph gives a clearer indication of what he means by the market:

The market is a process, actuated by the interplay of the actions of the various individuals cooperating *under the division of labor*. The forces determining the – changing – state of the market are the value judgments of these individuals and their actions as directed by these value judgments. The state of the market at any instant is the price structure, i.e., the totality of the exchange ratios as established by the interaction of those eager to buy and those eager to sell. The *market process* is entirely a resultant of human actions. Every market phenomenon can be traced back to definite choices of the members of the market society.

The *market process* is the adjustment of the individual actions of the various members of the market society to the *requirements of mutual cooperation*. The market prices tell the producers what to produce, and in what quantity. The market is the focal point to which the activities of the individuals converge. It is the center from which the activities of the individuals radiate (*ibid.*: 257-258, italics added).

In this introductory statement, Mises conceives of the *state of the market* as the *price structure*, a state that is caused by the *market process*. The market process, in turn, is the continuing economic interaction among individuals. These individuals make deliberate choices in an environment that enables them to take advantage of the higher productivity of the division of labor. Because the market process is a continuous adjustment, the state of the market is continuously changing.

To the discriminating reader, this introductory statement shows that Mises builds the theorem of consumer sovereignty into his conception of the market process. The first key to recognizing this is the italicized phrase “requirements of mutual cooperation.” The concept of mutual cooperation is related to Mises’s use of term “society” (*ibid.*: 117).

The actions which have brought about social cooperation and daily bring it about anew do not aim at anything else than cooperation and coadjuvancy with others for the attainment of definite singular ends. The total complex of the mutual relations created by such concerted actions is called society. It substitutes collaboration for the – at least conceivable – isolated life of individuals. Society is division of labor and combination of labor. In his capacity as an acting animal man becomes a social animal (*ibid.*: 143).

Mutual cooperation requires that individuals take advantage of the gains available from the higher productivity of the division of labor. It is in peoples’ rightly understood interests that these gains be realized.

The second key is to recognize that the early neoclassical economists transformed the classical theorem into the theorem of consumer sovereignty. In the newer theorem, subjective value to the consumer role replaced “rightly understood interests” (*ibid.*: 63-4; 682). And the entrepreneur role replaced the notion of every individual. Also prior to presenting the newer theorem, Mises sought to clearly specify the pure market economy conditions under which individuals are assumed to act. In associating the market process with the conditions of the pure market economy, Mises implied

the theorem of consumer sovereignty. The entrepreneur role's function is to enable the market process to occur.

It is crucial to understand what I am saying. Mises does not *independently* describe a market process and then impose the judgment that the theorem of consumer sovereignty would prevail in it. He defines the market process in such a way that the theorem *necessarily* prevails. It follows that to write of a Misesian market process that does not contain consumer sovereignty would be a misrepresentation of Mises's ideas on this subject. It would fail to capture the fact that the conditions under which Mises assumes market interaction to occur include a division of labor. Because there are gains due to the higher productivity of the division of labor, the entrepreneur role must act in the interests of consumers.

After his introductory remarks, Mises does not use the term "market process" again in this chapter. Instead, he goes on in his chapter 15 to develop the concepts that he associates with the pure market economy and that he plans to later use in the evaluation of interventionist arguments. The most relevant of these are consumer sovereignty and the entrepreneur role. Practically all of the detailed discussion of the market process is in his chapter 16 entitled "Prices." Thus, while he introduces the term "market process" before that of "consumer sovereignty" and before a long discussion of the entrepreneur role, practically all of his discussion of the market process is presented later.

The State of the Market

In chapter 16, the reader learns more about the "state of the market." She learns that this refers to (1) the prices of consumer goods and their relationship to the prices of factors of production, (2)

incomes and (3) the allocation of the factors among alternative uses. These three are determined together.

[T]he price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual...are...different aspects of one indivisible phenomenon which our analytical scrutiny separates into three parts (*ibid.*: 338).³

Purpose for Using the Term

Mises's main use of the term "market process" was to refer to economic interaction among human beings. He wanted to emphasize that the market economy is not a model containing automatons and, therefore, does not lend itself to being represented mathematically. Following Menger, he was especially inclined to use the term when emphasizing the irrelevance of mathematics to the study of the market economy.⁴ The following quotations illustrate this emphasis.

Some . . . mathematicians have gone so far as to declare that economic calculation could be established on the basis of units of utility. They call their methods utility analysis. Their error is shared by a third variety of mathematical economics.

The characteristic mark of this third group is that they are openly and consciously intent upon solving catallactic problems without any reference to the *market process* . . . (Mises 1966: 353-4, italics added)

Later in the same section, he writes:

Both the logical and the mathematical economists assert that human action ultimately aims at the establishment of such a state of equilibrium and would reach it if all further changes in data were to cease. But the logical economist knows much more than that. He shows how the activities of enterprising men, the promoters and speculators, eager to profit from discrepancies in the price structure, tend toward eradicating such discrepancies and thereby also toward blotting out the sources of entrepreneurial profit and loss. He shows how this *process* would finally result in the establishment of the evenly rotating economy. This is the task of economic theory. The mathematical description of various states of equilibrium is mere play. The problem is the analysis of the *market process*. (*ibid.*: 355-6, italics added)

³The "phenomenon" to which he refers is the "pricing process." He seems to use this term, the "market process," and the "economic process" interchangeably in this chapter.

⁴On Menger's use of the term, see William Jaffé, (1976: 521).

Finally, he writes:

. . . The problems of *process analysis*, i.e., the only economic problems that matter, defy any mathematical approach . . . The main deficiency of mathematical economics is...that it ignores the operation of the *market process*. (*ibid.*: 356, italics added)

Elucidating the Market Process

Mises elucidated the market process by referring to the imaginary construction of the evenly rotating economy as a final state of rest in a twofold way.

We conceive the operation of the market of consumer's goods in a twofold way. We think on the one hand of a state of affairs which leads to acts of exchange; the situation is such that the uneasiness of various individuals can be removed to some extent because various people value the same goods in a different way. On the other hand we think of a situation in which no further acts of exchange can happen because no actor expects any further improvement of his satisfaction by further acts of exchange. We proceed in the same way in comprehending the formation of the prices of factors of production. The operation of this market is actuated and kept in motion by the exertion of the promoting entrepreneurs, eager to profit from differences in the market prices of the factors of production and the expected prices of the products. The operation of this market would stop if a situation were ever to emerge in which the sum of the prices of the complementary factors of production – but for interest – equaled the prices of the products and nobody believed that further price changes were to be expected. Thus we have described the process adequately and completely by pointing out, positively, what actuates it and, negatively, what would suspend its motion (*ibid.*: 334).

The economist must first conceive of how the process is actuated and she must second conceive of an end state at which the interaction would cease. No matter that the market process never ends due to the continuous agitation of promoting entrepreneurs (*ibid.*: 255). To elucidate it, the economist needs the entrepreneur role to actuate the process and he needs the evenly rotating economy to represent the imaginary end state.

Recognizing these facts, one can see why Mises delayed his discussion of the market process until he had described the method of economics, defined the entrepreneur role, and elucidated the entrepreneur role under free enterprise (chapters 14 and 15). It is much more convenient to present the concept of an actuator by referring to this entrepreneur role than by referring to every individual

in the market economy, even though every person in a market economy acts as an entrepreneur. Mises does not always use the term “entrepreneur” in his discussions of the market process. But the concept is always there.

Consumer Sovereignty, the Entrepreneur Role, and the Market Process

Mises’s references to the market process must be considered in context. Perhaps the most important thing to realize is its relationship to the entrepreneur role. Since this role is correlative with consumer sovereignty and the pure market economy, these must also be accounted for.

As I stated above, the role of the entrepreneur is partly a device for simplifying the presentation of the market process. But the role also helps him achieve the two purposes that are crucial to his economics. First, the role is the agency that responds to the wishes of the consumer. The entrepreneur’s actions are mandated by the consumers (*ibid.*: 269-72; 358). Thus it is also a device for communicating the consumer sovereignty characteristic of the pure market economy. This is necessary, as Mises sees it, in order to accomplish the primary goal of evaluating interventionist arguments on the basis of whether they are in accord with the THRUI. Second, it enables him to bind economics to praxeology. He establishes this bond by inventing the imaginary constructions of the consumer and entrepreneur roles to represent, respectively, (1) the expression of ends and (2) the actions that cause ends to be met and uncertainty to be borne. The entrepreneur role facilitates the tracing of all economic phenomena back to more basic ends and means.⁵

⁵In this respect one must note the following introductory remarks about the market and the market process:

It is not especially easy to fully define Mises's entrepreneur role from his discussion. His method of elucidating it is to attempt to conceive of the imaginary construction of a penniless controller of the factors of production. This entrepreneur borrows from a lending capitalist who is free from all uncertainty, she buys or rents factors of production, and then produces a saleable good. The penniless entrepreneur can direct production but she is unable to bear uncertainty. Because Mises wants to make uncertainty a property of market interaction and of entrepreneurship, he writes that the lending capitalist must also be an entrepreneur (*ibid.*: 253). What he means by this is that the entrepreneur role – his entrepreneurs and capitalists – causes all consumer goods to be produced by employing resources and that it also bears all the uncertainty that exist under pure market economy conditions.

Because Mises's elucidation of the market process occurs in a broader context, it contains numerous references to consumer sovereignty and the entrepreneur role. The successful interpreter of *Human Action* must acknowledge Mises's other purposes for employing these term. In other words, she must either incorporate the broader context into her interpretation or try to refute the need for such a context. As it turns out, Kirzner did not acknowledge this context.

The Market Process and Growth

In the market process, the promoting and speculating entrepreneurs are responsible for actuating an adjustment process that would culminate in the imaginary construction of the evenly rotating

There is nothing inhuman or mystical with regard to the market. The market process is entirely a resultant of human actions. Every market phenomenon can be traced back to definite choices of the members of the market society (*ibid.*: 258).

Behind the scenes of the market process discussion, so to speak, is the entrepreneur role.

economy if there were no further changes in the data. It might appear from this description that the market process contains no distinctly human action source for growth. If entrepreneurship consisted only of adjustments to changes (and of discovering price discrepancies), it could not also be responsible for growth. Yet, it must be evident to everyone that a market economy grows and that the cause of growth is distinctly human action. How, then, does Mises deal with growth?

The answer is partly that he deals with it before he elucidates the market process. In his chapter 14 on “The Scope and Method of Catallactics,” he writes that “[t]he driving force of the market, the element tending toward unceasing innovation and improvement, is provided by the restlessness of the promoter and his eagerness to make profits as large as possible” (*ibid.*: 255). The promoter refers to the promoting entrepreneur – a role that is responsible for progress.⁶

3. KIRZNER’S INTERPRETATION OF MISES’S CONSUMER SOVEREIGNTY

Kirzner discusses Mises’s consumer sovereignty in writings published in 1999b and 2001. I begin with his 1999b paper.

⁶This fact seems to suggest that Mises’s market process, unlike that of Kirzner, has room for a Schumpeterian entrepreneur. For Kirzner’s interpretation of the relationship between his own concept of the entrepreneur and that of Schumpeter, see Kirzner (1999a).

Kirzner's 1999 Paper on "Mises's Understanding of the Capitalist System"

Kirzner asserts that in emphasizing consumer sovereignty, Mises was completing Menger's vision (Kirzner 1999b: 220).⁷ He describes that vision as follows.

...Menger...recognized how it is the consumer valuation of output which tends to be reflected in the market prices of the relevant inputs – which Menger identified as “higher order goods” – making Menger a pathbreaker in the development of neoclassical marginal productivity theory” (*ibid.*: 219-20).

The concept of “consumer sovereignty”...became central to Mises' understanding of the market economy. I shall argue that, in emphasizing this centrality, Mises was simply pursuing the Mengerian vision...(*ibid.*: 220)

Kirzner briefly reports on the section of *Human Action* entitled “The Sovereignty of the Consumers.”

Mises, he says, devotes only two pages to the subject and writes that the only exception to consumer sovereignty is monopoly (*ibid.*: 220-1). Kirzner goes on to write that following the two-page section, “not much further attention is paid to the idea of consumer sovereignty, but there can be no doubt as to its centrality for Mises's understanding of the market economy” (*ibid.*: 220). He bases his judgment mainly on his recollections from Mises's lectures and seminars.

Next Kirzner refers to both a normative and positive use of the consumer sovereignty concept. The normative use, he hypothesizes, is derived from what he presumed to be Mises's assumption that his audience wanted to endow consumers with such sovereignty. Accordingly, Kirzner implies, Mises showed the sympathetic audience that a free economy meets the demands of consumers and, therefore, that the market is desirable from their standpoint. Regarding the “positive” use, he asserts that consumer sovereignty was a “scientific theorem marking the completion of Menger's vision”

⁷Kirzner does not say that Mises consciously strove to complete Menger's vision and he provides no references to statements by Mises to this effect. This is the basis for my statement that Kirzner's interpretation of Mises merely *asserts* this connection.

(*ibid.*: 221), thereby repeating his assertion about the connection between Menger and Mises. Kirzner does not define “scientific.” The proper reference seems to be that this definition corresponds to his use of the term “positive” (see my discussion below).

Kirzner introduces a comparison between the “doctrine of mutual benefit derived from exchange” and what he calls the doctrine of consumer sovereignty (*ibid.*: 221):

The market may validly be seen as the arena in which the potential benefits from voluntary exchanges are extracted. But the free market is more fundamentally the arena in which the value scales of consumers come to govern the disposition of potential factors of production (*ibid.*: 222).

In a discussion of how consumer sovereignty offered Mises “an insight into the social role fulfilled by the institution of private property,” he writes that “[t]he doctrine of consumer sovereignty demonstrates the harmony of interests existing in a market economy between owners of resources and consumers.” “Recognizing this harmony of interests,” says Kirzner, “is merely another way of sharing Menger's vision” (*ibid.*).

Discussion of the 1999 Paper

Two things stand out in Kirzner’s interpretation: (1) the assertion that Mises completed Menger’s vision and (2) the idea that Mises’s consumer sovereignty can be correctly understood in terms of the modern professional economic distinction between positive and normative. I discuss each in turn.

Does Mises Complete Menger’s Vision

I presume that the only textual basis for the hypothesis that Mises completed Menger’s vision is Mises’s discussion in *Human Action* of how the prices of higher-order goods are determined (Mises

1966: 333-339).⁸ Mises's focus in that discussion is on two elements: the method to be used and the part played by the entrepreneur role. The method, he says, was due to the work of Hermann Gossen, Menger, and Eugen Bohm-Bawerk (*ibid.*: 334). One first imagines some gain from exchange ("the uneasiness of various individuals can be removed to some extent because various people value the same goods in a different way" [*ibid.*: 334]). Then one imagines a final state of rest or evenly rotating economy, in which no further gains from exchange exist. I referred to this method in part 2 of this essay. One is also reminded of the point at which Mises introduced what he called the static method.

In describing this method, he refers to action. He says that

[t]here is no means of studying the complex phenomena of action other than first to abstract from change altogether, then to introduce an isolated factor provoking change, and ultimately to analyze its effects under the assumption that other things remain equal (*ibid.*: 248).

It is important to read Mises's statements carefully because they show that Mises expresses the market process in terms of both consumer sovereignty and the entrepreneur function. The best proof of this comes toward the end of the discussion:

The essential fact is that it is the *competition of profit-seeking entrepreneurs* that does not tolerate the preservation of false prices of the factors of production....In the world-embracing public sale called the market they are the bidders for the factors of production. In bidding, they are the *mandataries of the consumers*, as it were. Each entrepreneur represents a different aspect of the consumers' wants, either a different commodity or another way of producing the same commodity. The competition among the entrepreneurs is ultimately a competition among the various possibilities open to men to remove their uneasiness as far as possible by the acquisition of consumers' goods. The decisions of the consumers to buy one commodity and to postpone buying another determine the prices of factors of production required for manufacturing these commodities. The competition between the entrepreneurs reflects the prices of consumers' goods in the formation of the prices of the factors of production...It makes effective the subsumed decisions of the consumers as to what purpose the nonspecific factors should be used for and to what extent the specific factors of production should be used (*ibid.*: 337-8, italics added).

⁸I base this presumption on the fact that this is Mises's only reference in *Human Action* to Menger in conjunction with a discussion market process (*ibid.*: 334).

Throughout the discussion the entrepreneur role is crucial. That this is so is evident from the fact that Mises emphasizes *appraisement*, which requires money and entrepreneurs, as opposed to valuation, which is how “Crusoe or a socialist board of production management” (*ibid.*: 335) would attempt to make decisions about the relationship between factors of production and consumer goods.

It is also illuminating to recognize Mises’s use of the entrepreneur role to make the point that the market is not a mechanical process:

There is nothing automatic or mechanical in the operation of the market. The entrepreneurs, eager to earn profits, appear as bidders at an auction, as it were, in which the owners of the factors of production put up for sale land, capital goods, and labor. The entrepreneurs are eager to outdo one another by bidding higher prices than their rivals...The entrepreneur is the agency that prevents the persistence of a state of production unsuitable to fill the most urgent wants of the consumers in the cheapest way... In restricting the output of those consumers' goods the production of which does not offer chances for reaping profit, [the promoters, speculators, and entrepreneurs] bring about a tendency toward a rise in their prices (*ibid.*: 335-6).

When Mises says that there is nothing automatic, he is referring to the fact that this process is driven by the “agency” of distinctly human action. It follows that he means for the market process to help him achieve the goal of binding economics to praxeology. His effort to achieve this goal is the obverse of his effort to show that mathematical economics cannot represent human action.

Thus, in discussing Menger’s method – and, indeed, in describing the market process – Mises makes a direct link to his concepts of consumer sovereignty and the entrepreneur role under pure market economy conditions. These concepts perform the dual purpose in Mises’s economics of (1) binding economics to praxeology and (2) enabling economists to make value-free evaluations of interventionist arguments. For Mises, a praxeology-based economics, the market process, the entrepreneur role, consumer sovereignty, the pure market economy and the value-free evaluation of

interventionist arguments are fully integrated. No one of these concepts can be separated from the others without risking misinterpretation.

It is not easy to get a clear understanding of what Kirzner means by Menger's vision. We can gain some insight, however, by exploring Kirzner's association between Mises's completion of Menger's vision and Mises's alleged extension of the "doctrine of mutual benefit derived from exchange" (Kirzner 1999b: 222, as quoted above). I have pointed out that Mises's theory of the pricing of the factors utilizes the theorem of consumer sovereignty. That theorem is based on the higher productivity of the division of labor.⁹

In my interpretation, Mises saw his treatise as the completion of the vision of the classical economists. Thus, unlike Kirzner, he does not refer to the mutual benefit from exchange as the basis for consumer sovereignty. He refers to the higher productivity of labor that is achieved through its division. If I am correct, Kirzner's reference to the completion of Menger's vision is shortsighted and functions, unwittingly to be sure, as a means of diverting students' attention away from the more penetrating vision entailed in Mises's use of the concept of consumer sovereignty.

Of course, there is a relationship between Menger's insights and Mises's theory of the market process. I do not mean to depreciate the view that Mises's work is in the tradition of Menger or that

⁹He stresses this in his introduction

What is wrong with our age is precisely the widespread ignorance of the role which these policies of economic freedom played in the technological evolution of the last two hundred years (Mises 1966: 9) .

Out of the political economy of the classical school emerges the general theory of human action, praxeology. The economic or catallactic problems are embedded in a more general science, and can no longer be severed from this connection. No treatment of economic problems proper can avoid starting from acts of choice; economics becomes a part, although the hitherto best elaborated part, of a more universal science, praxeology (*ibid.*: 3).

Mises conceived of his work partly in terms of a presumed Mengerian vision. Perhaps Mises did see parts of *Human Action* in this light. However, if one's goal is to understand Mises's economics – and not to focus on Austrian school continuities – I believe that one should fully explore the “consumer sovereignty” concept to the point of recognizing the purposes of Mises's economics and how the concept helps Mises achieve them. On this basis, I believe it is reasonable to criticize Kirzner's interpretation.¹⁰

Before leaving the subject, I must correct Kirzner's statement that after Mises's two page section on consumer sovereignty, he has little further to say about it. In fact, as I noted above, the entire structure of the economics part of the treatise is founded upon the goal of getting into a position to make evaluations of interventionist arguments based on the concept of consumer sovereignty. Moreover, he uses the concept repeatedly throughout the text. Examples are the theory of the trade cycle (*ibid.*: 547), the theory of wages (*ibid.*: 593, 599), and the theory of all factor prices (*ibid.*: 636).

Does the Distinction Between Positive and Normative Offer an Accurate View of Mises's Use of the Consumer Sovereignty Doctrine?

The second issue that deserves attention is Kirzner's reference to the popular distinction in mainstream economics between positive and normative. Kirzner's decision to frame consumer sovereignty with this distinction amounts to an attempt to translate Mises's ideas into a language that

¹⁰I do not wish to criticize Kirzner's apparent main purpose of his paper. So far as I can tell, his paper was intended to admonish Joseph Salerno's elevation of the “plain state of rest” to a theorem relating to market-clearing prices. Such an elevation deserves criticism.

is more familiar to modern economists. Does this frame accurately capture Mises's ideas on the subject? And how would this frame have been assessed by Mises himself? As Mises sees it, one does not make a value judgment when she says that consumers benefit from a pure market economy. She merely draws a logical conclusion in the same way that she does when she recognizes the higher productivity due to a division of labor. Just as the classical economists recognized that the higher productivity of a division of labor harmonized rightly understood interests, so also should modern economists following the revolutionary theory of value introduced by the early neoclassicals, recognize that the actions of the entrepreneur role harmonizes rightly understood interests.¹¹

Mises's does not use the term "positive" in the popular context. He does, however, equate "normative" with ethical (*ibid.*: 2). Moreover, he explicitly denies that economics is a normative discipline. Consider the following statement:

Ethical doctrines are intent upon establishing scales of value according to which man should act but does not necessarily always act...This is not the attitude of praxeology and economics. They do not express any opinion with regard to such problems as whether or not sybaritism is better than asceticism....They apply to the means only one yardstick, viz., whether or not they are suitable to attain the ends at which the acting individuals aim (*ibid.*: 95).

But what criterion does economics use to decide on the suitability of means? Mises's answer, which is not particularly intelligible to a first-time reader at the point where he gives it, is that a society is characterized by a regularity, due to the division of labor, to which individuals must adjust (*ibid.*:

¹¹The reader should keep in mind that this statement is a logical deduction based on assumptions and carefully defined definitions. It is not a statement about particular individuals in everyday life.

2). Because of this, the study of that regularity yields a criterion that can be used as the yardstick referred to in the above quote.¹²

Thus, economics is concerned exclusively with the evaluation of arguments based on the THRUI. The proponent or opponent of intervention makes THRUI-based value judgments. The economist only investigates whether the means are appropriate to achieving the ends that are specified in the judgments. It is true that Mises's economics *assumes* that the people who are evaluating arguments acknowledge that individuals gain from the specialization and the division of labor that occur as a consequence of trade. But this assumption is not a normative judgment; it is an assumption about the goals and knowledge of the interventionists and the opponents of intervention. The assumption is that the higher productivity of the division of labor is accepted by both. Moreover, I feel certain that Mises would go on to point out that the acceptance of this assumption is a requirement for membership in the club of people that he called economists.

From what perspective would it be correct to say that Mises's assumption about those who make interventionist arguments is a value judgment? Mises seems to answer this question in his section on "World View and Ideology."

A world view is, as a theory, an interpretation of all things, and as a precept for action, an opinion concerning the best means for removing uneasiness as much as possible. A world view is thus, on the one hand, an explanation of all phenomena and, on the other hand, a technology, both these terms being taken in their broadest sense. Religion, metaphysics, and philosophy aim at providing a world view. They interpret the universe and they advise men how to act (*ibid.*: 178).

¹²Mises writes that one "must study the laws of human action and social cooperation as the physicist studies the laws of nature" (*ibid.*) A search of "laws of social cooperation" reveals that he is referring to the fact, discovered by the classical economists, that individuals gain from the higher productivity of the division of labor. Everyone, he says, must adjust to this fact. Another way to represent the criterion to which I am referring is the THRUI. As this theorem was interpreted through the subjective theory of value by the early neoclassical economists, the focus shifted to the benefits of individuals in the role of the consumer. For Mises, the THRUI is tantamount to the theorem of consumer sovereignty.

One type of world view is asceticism. This view teaches individuals to “turn away from earthly concerns and to live without bothering about worldly things” (*ibid.*). “Praxeology and economics are not qualified to deal with the transcendent and metaphysical aspects of any doctrine” (*ibid.*: 180).

However,

where earthly things are involved, the natural affinity of all men and the identity of the biological conditions for the preservation of their lives come into play. The higher productivity of cooperation under division of labor makes society the foremost means of every individual for the attainment of his own ends whatever they may be. The maintenance and further intensification of social cooperation become a concern of everybody. Every world view and every ideology which is not entirely and unconditionally committed to the practice of asceticism and to a life in anchoritic reclusion must pay heed to the fact that society is the great means for the attainment of earthly ends (*ibid.*: 179). But then a common ground is won to clear the way for an agreement concerning minor social problems and the details of society's organization. However various ideologies may conflict with one another, they harmonize in one point, in the acknowledgment of life in society (*ibid.*: 179-80).

In effect, Mises says that two classes of perspectives might legitimately assert that his economics is based on a value judgment. The first is asceticism. A person who favors asceticism could legitimately assert that a science concerned with the means of achieving earthly ends requires making a value judgment. The second is a perspective that denies the higher productivity of the division of labor. Those who deny it may legitimately assert that Mises's economics is based on a value judgment. Mises would respond to such an assertion by questioning the critic's definition of economics. Such a claim could not be made by a classical economist, who accepts the THRUI. Thus, Mises would attach to such a claimant the responsibility to defend his decision to reject the classical views. All those who accept the higher productivity of the division of labor are in a position to be persuaded that economics can be employed to do value-free evaluations of interventionist arguments.

Mises wrote the following in 1940:

In my analysis of [the problems of socialism and intervention], I introduced a new point of view, the only one that allows a scientific discussion of these political questions. I inquired into the effectiveness of the chosen means to attain the avowed ends, that is, whether the objectives which the recommended measures were to attain would actually be achieved by the means recommended and employed (Mises 1978: 114).

Note Mises's use of the term "scientific" in this passage. Then recall Kirzner's use of the term in his reference to a "scientific theorem marking the completion of Menger's vision" (Kirzner 1999b: 221, as quoted above). It is not easy to describe the difference between the use of the term "science" by the two writers. However, one can certainly doubt that Mises would have approved of the positive-normative distinction to characterize the "scientific discussion" to which he referred.

I suspect that Mises would regard Kirzner's framing his treatment of consumer sovereignty in the language of modern theoretical welfare economics as a vacuous challenge. The only way that one could add content to the challenge is to present some alternative definition of economics – one that Mises would almost certainly reject.

One might assert that I am nitpicking when I say that Mises assumed that opponents and proponents of intervention share the same goal of achieving the benefits of the higher productivity associated with the division of labor. Is this not similar to Kirzner's assertion that Mises assumed that his readers accepted the theorem of consumer sovereignty? I cannot agree with such an assertion. The idea that a positive economics is possible suggests that one can study "economic problems" without regard to their policy significance. However, without considering policy – i.e., without considering the question of how government intervention affects peoples' well being – no economic problems could be identified in the first place. The economist would have no direction and could not distinguish an economic from a social, political, or engineering problem. All that the positive-normative distinction achieves is to obscure the fact that economics, as conceived by Mises, incorporates a concept of peoples' well being in the very definition of an economic problem and, therefore, in the definition of economics.

From the point of view of Mises's economics, the whole excursion of mainstream professional economists into theoretical welfare economics is based on a misconception. The economist is not at liberty to deny the higher productivity of the division of labor.

Kirzner's 2001 Book and Brief Discussion

In his 2001 book on *Ludwig von Mises and his Economics*, Kirzner places his discussion of Mises's "doctrine of consumer sovereignty" in his chapter on the "Market Process" and repeats the interpretation of his 1999b article. The reason he treats consumer sovereignty in this way is revealed in a later chapter and in a section entitled "Mises, *Wertfreiheit*, and the Scientific Case for the Free Market." After an introduction, Kirzner poses what he regards as the crucial questions:

How could Mises, in his role as objective scientist (as distinct from his political position as a classical liberal) denounce governmental price-fixing? How could he denounce government antitrust policy? or protectionism?" (Kirzner 2001: 166).

In formulating an answer to the questions, Kirzner begins with the following interesting observation:

Mises never did explore in any detail the difficulties surrounding the translation of positive economic science into policy advice. He appeared to believe that the economic goodness or badness of a policy could, if the relevant economic theory is thoroughly understood, easily be recognized (*ibid.*: 167).

He Kirzner then proceeds to propose two Misesian criteria for saying that a policy is bad or good (*ibid.*: 168). The first is that a policy may be called "'bad' not because it produces results which, the economists, as citizens, do not like, but because it leads to results at variance with the objectives aimed at for that policy by the policy makers themselves (*ibid.*)."

The second is that a policy may be called bad if the plans which the policy encourages cannot be completed. He then introduces a third criterion, based on his interpretation of consumer sovereignty. He regards this as a "normative"

proposition. He writes in 2001 that “Mises was simply assuming that his readers held consumer sovereignty to be a desirable feature in an economic system” (*ibid.*: 169).

One can safely conclude that Kirzner’s view of Mises’s consumer sovereignty had not changed. As in the earlier case, the difficulty with Kirzner’s interpretation is his failure to identify (1) the role of consumer sovereignty (and its correlative concept, the entrepreneur role) in binding economics to praxeology and (2) the function of the THRUI in Mises’s interventionist argument-oriented economics.

One logically understandable difference between the 1999b paper and the 2001 book is the breadth of general conclusions. Here, I would like to single out one that, to me, seems most astounding. Kirzner writes in 2001 that “Mises’ [*Human Action*] offers a highly original and uniquely profound fundamental restatement of his own already well-developed economic doctrines” (*ibid.*: 59). It is not easy for me to imagine a more misleading interpretation. One case should suffice. Mises is most well known for his theory of the trade cycle, which he produced in his 1912 book. Yet neither that book nor any other earlier book or article to my knowledge contains anything significant about the entrepreneur role, consumer sovereignty, the method of imaginary constructions, or originary interest. Yet, even a cursory reading of the trade cycle chapter in *Human Action* shows that these played integral parts in a profoundly deeper theory. The reformulated theory was derived from Mises’s praxeological economics. Mises’s provision of a praxeological foundation for economics was totally new. The economics should also be regarded as new. In it, Mises assumed that everyone interested in evaluating interventionist arguments subscribes to the view that individuals gain from the higher productivity of the division of labor because this law led to the founding theorem of

classical economics. To be an economist in the proper sense of the term means to accept this law. In light of the advances in the Austrian theory of value and cost, this assumption is tantamount to assuming that everyone subscribes to the theorem of consumer sovereignty and can appreciate the idea of an entrepreneur role that is always and exclusively the mandatory of the consumers.

Mises could not have made these changes in his trade cycle theory had he not taken the time and energy to work through the epistemological problems that he apparently recognized at an early age but toward which he was unable to direct his attention until the 1920s.¹³ However, his 1920s and 1930s writings, which seem to have been mostly devoted to epistemological problems and not to economics proper, do not contain references to consumer sovereignty, the entrepreneur function or originary interest. Thus, Kirzner's general conclusion is uninformed. It lacks a basis in Mises's writings.

4. KIRZNER VS. MISES ON MARKET INTERVENTION

It is possible to compare Kirzner and Mises on their treatment of market intervention. Whereas Mises's evaluations of interventionist arguments make use of the concept of consumer sovereignty and the THRU, Kirzner's evaluations emphasize radical uncertainty about the outcome of a regulation. Such a comparison does not shed any light on the accuracy of Kirzner's interpretation

¹³See Mises's discussion of this matter in his *Notes and Recollections* (1978a:55-57).

of Mises's consumer sovereignty concept. However, it does show how far Kirzner strayed from the trail blazed by Mises. The purpose of this part is to compare the two and then to make some observations based on the comparison.

Kirzner's Approach

Kirzner presents what he calls a "market process approach" to regulation. Consider how he describes it.

Let us suppose that the need to regulate is asserted on the basis of some perceived "undesirable" phenomenon arising from the unregulated market. For example, the prices of certain goods are held to be "too high" (milk to consumers?), or "too low" (wheat prices received by farmers?). Or the quantity available of a certain product is held to be "too low" (medical care?) or "too high" (unsafe toys?). And so on. Let us imagine (perhaps fancifully) that government decisionmakers are motivated solely by the urge to induce a pattern of phenomena that faithfully reflects consumer preferences (which they believe to have been somehow frustrated by the uncoordinated free market). Our discussion should have made clear that these selfless, public-minded officials lack the means to be able to respond to the innumerable rankings of preference (by consumers and owners of resources) of which they may initially not be directly aware. There is no way they can know the "correct" price or the "correct" quantity for any particular product or resource. There is nothing (corresponding to the entrepreneurial motive to discover pure profit opportunities) that could lead them systematically to discover where failures of coordination in fact exist.

More serious is the fact that direct controls by government on prices, quantities, or qualities of output production or input employment may unintentionally block activities which have, as yet, not been specifically envisaged by anyone (Kirzner 1982: 9-10).

The reader learns here that the market process approach to regulation sees the price outcomes of market interaction as largely, if not totally, outside of the ability of economists and policy makers to predict. Economists and policy makers cannot even formulate price goals that are achievable. To formulate a goal requires knowledge that does not exist. Thus, price intervention is a fruitless exercise regardless of whether the intentions are good. Price intervention from this point of view is a false hope. It follows that all interventionist arguments that set the goal of a particular set of prices, quantities, or qualities of output or input are flawed.

Kirzner's second point is made less forcefully. It is that the government intervention *may* unintentionally block unspecifiable market activities. Again, his emphasis is on lack of knowledge. The activities that are unintentionally blocked cannot be envisioned by the government decision-makers.

Mises's Approach

Mises approaches the subject from a very different point of view. The question Mises asks is this: under what conditions is it possible that intervention will achieve the goal that the interventionist intends? He introduces the subject in his chapter 27 on "The Government and the Market":

In dealing with the catallactics of interventionism we...are exclusively concerned with those acts of interference which aim at forcing the entrepreneurs and capitalists to employ the factors of production in a way different from what they would have done if they merely obeyed the dictates of the market (Mises 1966: 734).

Note his the use of the phrase "entrepreneurs and capitalists." The economics of intervention, Mises tells the reader, is concerned with how the intervention changes the performance of the entrepreneur role.¹⁴

Later, in his chapter on the "Interference with the Structure of Prices" (*ibid.*: chapter 30), he considers some specific examples of a maximum and minimum price. Before presenting the examples, he informs the reader about the criterion he uses to evaluate a policy of intervention:

Economics does not say that isolated government interference with the prices of only one commodity or a few commodities is unfair, bad, or *unfeasible*. It says that such interference produces results contrary to its purpose, that it makes conditions worse, not better, from the point of view of the government and those backing its interference (*ibid.*: 764, italics added).

¹⁴See my discussion earlier in this essay about the use of this phrase in relation to the entrepreneur role.

Note the word “infeasible.” The reader will recall that the principal goal of Kirzner’s policy evaluations was precisely to show that price intervention is infeasible.

A Somewhat Convoluted Presentation with Gaps

A straightforward presentation of a particular case of intervention would start by presenting the criterion to be used to evaluate the difference between the performance of the entrepreneur role in the absence of the intervention and its performance in its presence. The presentation would then proceed to describe the entrepreneur role’s performance in the two situations. Alas, Mises does not give his readers such a straightforward presentation. First, he considers the effects of intervention before he describes the criterion he will use to make the comparison. Second, in his consideration of effects, he refers neither to “entrepreneurs and capitalists” nor to the entrepreneur role. He writes of the “market” and of the producers. Consider his presentation of the effects of the maximum price.

At first, Mises’s reasoning about the maximum price seems very much like that of the standard textbook treatment. He writes: “[I]f the government fixes prices at a height different from what the market would have fixed if left alone, this equilibrium of demand and supply is disturbed.” In this event, the

price can no longer segregate those potential buyers and sellers who can buy or sell from those who cannot...If the authority does not want chance or violence to determine the allocation of the supply available and conditions to become chaotic, it...must resort to rationing (*ibid.*: 762-3).

However, rationing is not “the core of the issue.” The

primary function [of the market] is the direction of production...If the government's price ceiling refers only to one consumers' good or to a limited amount of consumers' goods while the prices of the complementary factors of production are left free, production of the consumers' goods concerned will drop. The marginal producers will discontinue producing them lest they suffer losses. The not absolutely specific factors of production will be employed to a greater extent for the

production of other goods not subject to price ceilings. A greater part of the absolutely specific factors of production will remain unused than would have remained in the absence of price ceilings. There emerges a tendency to shift production activities from the production of the goods affected by the maximum prices into the production of other goods (*ibid.*: 763).

Up to this stage, Mises has not discussed the goal that the maximum price was intended to achieve.

Now he does. We find that he has been assuming that the authority

wanted to make the commodities concerned more easily accessible to the consumers. It considered precisely those commodities so vital that it singled them out for a special measure in order to make it possible even for poor people to be amply supplied with them (*ibid.*).

Given this goal, the outcome of imposing the maximum price “is manifestly contrary to the intentions of the government” (*ibid.*). Because “production of these commodities drops or stops altogether,” the intervention “is a complete failure” (*ibid.*: 764). He goes on to consider whether the intervention could achieve the goal if, in addition, the authority imposed “maximum prices on the factors of production needed for the production of the consumer goods the prices of which it has fixed.” Such an action would be vain (*ibid.*). He concludes.

Economics...says that such interference produces results contrary to its purpose, that it makes conditions worse, not better, *from the point of view of the government and those backing its interference*. Before the government interfered, the goods concerned were, in the eyes of the government, too dear. As a result of the maximum price their supply dwindles or disappears altogether. The government interfered because it considered these commodities especially vital, necessary, indispensable. But its action curtailed the supply available. It is therefore, from the point of view of the government, absurd and nonsensical (*ibid.*).

A reader of this argument might object by saying that the government’s goal might be to benefit a particular class of consumers – those that can purchase at the lower, maximum price. Certainly, those consumers must gain. Mises does not deal with such an objection at this stage. He does so later when he discusses a minimum price – minimum wage rates. So I now turn to that case.

As in the case of the maximum price, the argument is confusing to a reader who expects to find a straightforward presentation. First, he does not connect this new “justification” for a controlled price with the earlier one.¹⁵ Second, he mixes his evaluation of the simple interventionist argument with a discussion of the high-wage proposals of socialists and unionists.

I will not spend time on these diversions but, instead skip straight to the conclusion in order to demonstrate my point about the fundamental means that Mises used to evaluate this interventionist argument. In this respect, he writes that

the problem is precisely whether there is any means for raising the standard of living of all those eager to work other than raising the marginal productivity of labor by accelerating the increase of capital as compared with population. The union doctrinaires are intent upon obscuring this primary issue (*ibid.*: 772).

All that minimum wage rates can accomplish with regard to the employment of machinery is to shift additional investment from one branch into another (*ibid.*: 775).

Thus, he evaluates the argument favoring minimum wages by referring to the standard of living of *all* workers. He confirms this later in the treatise.

Economics does not say labor unionism is a bad myth. It merely says it is an inappropriate means of raising wage rates for all those eager to earn wages. It leaves it to every man to decide whether the realization of the labor-union myth is more important than the avoidance of the inevitable consequences of labor-union policies (*ibid.*: 884).

Neither the THRUI nor consumer sovereignty are issues in this discussion because the concern is with individuals in the role of wage earners.

It is worth noting that Mises writes here of “isolated” interference. This presumably means that he is not referring to a specific market economy in which interference is already taking place. One might

¹⁵A footnote that connects the two discussions is at the bottom of p. 763. Whether the reader will make the connection is questionable.

reasonably presume also that he was writing about an economy with complete private property rights.¹⁶

Kirzner and Mises Compared

The difference between Mises and Kirzner is this. Kirzner argues that price regulators are unable to formulate a plan that will achieve some hypothetical equilibrium price. Price regulators do not have sufficient information to identify the equilibrium. Mises, on the other hand, argues that price regulation will cause events in the market economy that are inconsistent with the goal of the interventionist. From the point of view of a reader who is interested in supporting *laissez faire*, the positions of Kirzner and Mises seem similar. They both advocate a non-interventionist policy. Clearly, however, their positions are based on different reasoning. The difference stems from different definitions of economics.

Why did Kirzner approach the evaluation of price intervention arguments in such a different way from Mises? Surely, he was aware of the quoted passages in *Human Action*. One possibility is that he disapproved of Mises's treatment. In the two discussions of consumer sovereignty described in part 3 of this essay, Kirzner does not tell his readers whether he approves or disapproves of the concept. To say that Mises completes Menger's vision may merely be a statement of his opinion on the history of Austrian doctrine. However, it is worth contemplating the possibility that if Kirzner did not approve, he would presumably think that once Menger's vision was complete, it was time for Austrian economics to *move on*. Such a view seems particularly likely if Kirzner subscribes to

¹⁶Mises defines such an economy at *ibid.*: 655.

the normative-positive distinction in modern professional economics. To one who accepts this distinction, it would perhaps seem logical for Austrian economists to try to merge their work with that of the mainstream or, at least, to help the mainstream benefit to a greater extent from Austrian insights. More specifically, the Austrians could presumably employ their insights about the market process to make a contribution to modern positive economics. From this point of view, the provision of Austrian insights would not only enhance modern professional economics but elevate the status of Austrian economics in the eyes of the academic professionals. One need not reject Mises's consumer sovereignty to move on. She only needs to set it aside – to relegate it to a subsidiary position, as modern welfare economics might do.

Such a decision would be understandable. However, it is one thing to thoroughly explore the meaning of an idea and then to place it in the closet, so to speak, for practical reasons. It is something else again to fail to thoroughly explore it. After all, a thorough exploration may change one's mind about whether it should be stored away at all. My argument is that there is no evidence to support the view that Kirzner thoroughly explored the consumer sovereignty idea and, therefore that he understood its central role in Mises's economics. He showed no appreciation for the notion that only an ascetic or someone who denied the higher productivity achievable through a division of labor (a non-economist) could legitimately regard this theorem as normative.

The reader of this book can make her own judgment about which economics she would prefer to follow. I would caution, however, that to accept the viewpoint and terminology of theoretical welfare economics is to align oneself with the scientism and formalization of economics that emerged during the same period that Mises was working out his totally opposing epistemological foundation for the

classical and early neoclassical economics which had previously been the norm in the economics profession. While aligning oneself with theoretical welfare economics may today be regarded by many as part of the neo-Austrian tradition, one would be hard pressed to defend the view that it is in the tradition of Menger, Bohm Bawerk or Mises.

5. CONCLUSION

The focus of my inquiry in this essay has been whether one can learn about consumer sovereignty and Mises's market process from Kirzner. Since there is no obvious evidence that Kirzner understood the most important purposes that Mises aimed to achieve with these concepts and since Kirzner's treatment of interventionist arguments is different, my answer is that his interpretation is misleading.

It is impossible to understand Mises's economics without appreciating the part played by the theorem of consumer sovereignty. Yet, in his interpretation of Mises's economics, Kirzner stresses the primacy of Mises's theory of the market process. He treats consumer sovereignty as being a completion of a Mengerian vision of the relationship between the prices of the higher-order goods and the prices of the lower-order goods. Failing to thoroughly explore the consumer sovereignty theorem, he completely neglected the law of the higher productivity of the division of labor and the theorem of the harmony of rightly understood interests. He also neglected the bond between

economics and praxeology that Mises sought to achieve with his concept of consumer sovereignty and its correlative concept, the entrepreneur role.

One cannot be certain of the ultimate consequences of Kirzner's interpretation. I believe, however, that in combination with Rothbard's rejection of consumer sovereignty (Rothbard 2004: 630-6), a situation now exists in which progress in Austrian economics along Misesian lines is highly unlikely unless students reject Kirzner's interpretation.

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