

The Entrepreneur in Mises's Economics

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Abstract

The aim of this essay is to elucidate Ludwig von Mises's concept of the entrepreneur. The essay defends the claim that to understand Mises's entrepreneur, one must recognize three purposes for which he used the concept. The first is to maintain a bond between praxeology and economics. This is important in order to defend economics against attacks from behaviorists and materialists, who deny the possibility that economics is a branch of the study of distinctly human action in general. The second purpose is to make consumer sovereignty the organizing principle for constructing theorems about the pure market economy. He believed that by doing this, he could incorporate into economic theory the criterion that classical and early neoclassical economists used to evaluate arguments favoring or opposing market intervention. The third purpose is to elucidate the market process. In the market process, the entrepreneur is the agent of progress, distribution, and the selection of items to be factors of production. My claim is defended by text references to Mises *Human Action* (1966).

After presenting the concept, I claim that only the latter purpose has been embraced by neo-Austrian economists since Mises's death in 1973. As a result, his more complete concept of the entrepreneur is in danger of being relegated to obscurity, along with the economics that is based on it.

The Entrepreneur in Mises's Economics

The purpose of this essay, as its title suggests, is to try to provide an informed interpretation of Mises's entrepreneur. The entrepreneur and its correlative concept, consumer sovereignty, were central features of Ludwig von Mises's economics. Indeed, every economic theorem that Mises produced employed these concepts, at least implicitly. Thus, an understanding of these concepts is crucial to achieving an understanding of the economics.

The essay claims that to acquire a full understanding of Mises's entrepreneur, one must recognize a set of layered purposes that he sought to achieve with the concept. In simple terms, he sought to achieve three second-order purposes which can also be conceived as means of achieving three first-order purposes. The second-order purposes are: (1) to bind economics to praxeology, (2) to link the entrepreneur concept directly and precisely to consumer sovereignty and the pure market economy, and (3) to describe a market process that results from action under market economy conditions.

Mises's first-order purpose for using the entrepreneur role to bind economics to praxeology was to insulate his economics from those who advocated either some non-action based economics or who claimed that other logics could be employed to comprehend market phenomena (Mises 1966: 7). His first-order purpose for relating the entrepreneur to consumer sovereignty was to put economists in a position where they could make value-free evaluations of arguments favoring or opposing market intervention, assuming that agreement had been reached on the principle of the harmony of rightly understood interests (PHRUI). His first-order purpose for describing the market process was to explain a number of features of a market economy: economic growth, the distribution of gains from exchange, competition, and the selection of particular items and actions as resources. These purposes

and means of achieving them are listed and correlated in the chart below. Such a chart is useful because, as we shall see, Mises's presentation of the entrepreneur concept is anything but straightforward.

PURPOSES FOR USING THE ENTREPRENEUR CONCEPT	
<p>First Purpose To defend economics against irrationalism, historicism, panphysi- calism, behaviorism, and all varieties of polylogism.</p>	<p>How He Accomplished the Purpose Bound economics to praxeology by defining the entrepreneur function as distinctly human action under market economy conditions.</p>
<p>Second Purpose To help evaluate interventionist arguments based on the principle of the harmony of rightly understood interests.</p>	<p>How He Accomplished the Purpose Linked the entrepreneur function directly to consumer sovereignty and the pure market economy by defining the entrepreneur function as the servant of consumer.</p>
<p>Third Purpose To produce economic theorems relating to market interaction.</p>	<p>How He Accomplished the Purpose Described the market process by using the concept of the promoter entrepreneur to give examples.</p>

This essay has a structure that reflects them purposes. Part 1 examines the praxeological foundations of the entrepreneur function. Part 2 describes the relationship between consumer sovereignty, the pure market economy, and the entrepreneur function. Part 3 considers individual differences, which make up Mises's basis for identifying the promoting entrepreneur. Part 4 presents a conclusion.

1. PRAXEOLOGICAL FOUNDATIONS OF THE ENTREPRENEUR CONCEPT

Mises's first purpose for using the entrepreneur concept was to bind economics to praxeology. Praxeology, to Mises, is the "tree" of distinctly human science of which economics is a branch. It is the theory of distinctly human action in general; economics is the branch of theory that deals with action and interaction under market economy conditions. Consider the following statement about the entrepreneur:

[i]t is impossible to eliminate the entrepreneur from the picture of a market economy. The various complementary factors of production cannot come together spontaneously. They need to be combined by the purposive efforts of men aiming at certain ends and motivated by the urge to improve their state of satisfaction. In eliminating the entrepreneur one eliminates the driving force of the whole market system (*ibid.*: 249).

The implication of this statement is that if it were not for the entrepreneur, the complementary factors would sit idle. Even if consumers expressed wants and factor owners possessed factors, without entrepreneurship, there could be no use of factors to satisfy wants. However, if one makes an analogy with action, in general, the statement suggests that the concept of the entrepreneur in the market economy corresponds to the concept of the isolated actor's identifying and directing the use of means to satisfy his wants. Without identifying and directing the use of means, the complementary factors of production would not come together for him.

This obvious analogy notwithstanding, the statement quoted above is not about binding economics to praxeology. In fact, Mises does not say anywhere in his book that he uses the entrepreneur concept to assure that his economics has a praxeological foundation. That he uses this

means must be inferred. The aim of this section is to provide the necessary logic and references to support my claim that such an inferences is reasonable.

I begin this section by showing why the purpose of binding economics to praxeology is important. Then I show how economists, beginning with a general theory of action (praxeology), proceed to produce *economic theorems* – i.e., how they build a praxeology-based economics. The entrepreneur function is introduced as a means of carrying out this procedure.

Why the Purpose of Binding Economics to Praxeology is Important

The bond between praxeology and economics is crucial to the task of defending economics against the critics of the theorems of economics. Mises believed that the economics of the classical and early neoclassical economists had been attacked on the grounds that it is biased and unscientific. The attacks were effective in swaying public opinion. To recover the rightful place of economics in peoples' evaluations of government policies,

[t]he system of economic thought must be built up in such a way that it is proof against any criticism on the part of irrationalism, historicism, panphysicalism, behaviorism, and all varieties of polylogism. It is an intolerable state of affairs that while new arguments are daily advanced to demonstrate the absurdity and futility of the endeavors of economics, the economists pretend to ignore all this.

It is no longer enough to deal with the economic problems within the traditional framework. It is necessary to build the theory of catallactics upon the solid foundation of a general theory of human action, praxeology. This procedure will not only secure it against many fallacious criticisms but clarify many problems hitherto not even adequately seen, still less satisfactorily solved. There is, especially, the fundamental problem of economic calculation (*ibid.*: 7).

Economic theory, then must be built on the foundation of praxeology.

How to Produce Praxeology-based Economic Theorems

How does one build economic theory on a foundation of a theory of human action? To be consistent with Mises's answer, I rephrase the question to ask how one produces theorems in economics. Mises discusses this issue in his chapter 2 in a section entitled "The Procedure of Economics." He introduces the section with the following statements about *strictly praxeological* theorems:

All that is needed for the deduction of all praxeological theorems is knowledge of the essence of human action... No special experience is needed in order to comprehend these theorems...The only way to a cognition of these theorems is logical analysis of our inherent knowledge of the category of action. We must bethink ourselves and reflect upon the structure of human action. Like logic and mathematics, praxeological knowledge is in us; it does not come from without (*ibid.*: 64).

To produce an *economic* theorem one must go further. She must assume the existence of conditions that reflect the reality that she aims to comprehend. In economics, she may assume the disutility of labor. Or she may assume that peoples' means are limited to making exchanges (*ibid.*: 65). "In introducing assumptions into its reasoning, [economics] satisfies itself that the treatment of the assumptions concerned can render useful services for the comprehension of reality" (*ibid.*: 66).

Mises describes the procedure for producing economic theorems as follows:

From the unshakable foundation of the category of human action praxeology and economics proceed step by step by means of discursive reasoning. Precisely defining assumptions and conditions, they construct a system of concepts and draw all the inferences implied by logically unassailable ratiocination (*ibid.*: 67).

To critically examine his theorems, the economist must "trace back all theorems to their unquestionable and certain ultimate basis, the category of human action, and to test by the most careful scrutiny all assumptions and inferences leading from this basis to the theorem under

examination” (*ibid.*: 68). This is more or less the end of his discussion about producing and examining economic theorems.

At this early stage in his treatise, Mises had not yet defined economics. Nor had he introduced his goal of evaluating arguments favoring or opposing market intervention***[for essay only] (interventionist arguments). So it is perhaps understandable that his remarks about the procedure would be broad and general. His focus is on the comprehension of reality. He writes as if the ultimate purpose of economics is to comprehend reality. This is clearly not what he regards as the ultimate purpose. He makes this evident in his discussion of “experience.” When “praxeology restricts its inquiries to the study of acting under the conditions and presuppositions which are given in reality...[it reflects the fact that experience] directs our curiosity toward certain problems and diverts it from other problems” (*ibid.*: 65). Thus, the focus is not merely on reality but on the reality toward which our curiosity directs our attention. It is only later, in his chapter on the “Scope and Method of Catallactics,” that he tells the reader about the “incontestable procedure” of economics. It is to “elucidate the operation of the pure market economy” and then to study the “various problems raised by interferences with the market...” (*ibid.*: 238). The pure market economy is an imaginary construction that the economist builds because he is interested in problems related to “the analysis of the determination of money prices of goods and services exchanged on the market (*ibid.*: 234). In the market economy, the entrepreneur is the driving force of such determination.

Mises does not systematically identify specific economic theorems. Nor, as one might wish, does he relate the theorems that he does identify to his statement about tracing back theorems to their basis. At various places in his book, he refers to the following theorems: “the theorems and theories

concerning social cooperation” (*ibid.*: 180), that “entrepreneurial activities tend toward an abolition of price differences not caused by the costs of transportation and trade barriers” (*ibid.*: 331), “theorems concerning the determination of prices” (*ibid.*: 455), the “theorem of time preference” (*ibid.*: 486), “the regression theorem of money's purchasing power” (*ibid.*: 610), “the theorem of the harmony of the rightly understood interests of all members of the market society” (*ibid.*: 674), and “that the value attached to one unit of a supply of $n-1$ units is greater than that attached to one unit of a supply of n units” (*ibid.*: 703).¹ Some of these theorems are economic theorems and some are not. Mises occasionally distinguishes an economic theorem and he occasionally does not. The result is that even though he tells the reader early in *Human Action* how to produce an economic theorem, he does not connect this recipe to the theorems that he actually describes. The reader is left to show how the concept of the entrepreneur is employed in the economic theorem production process.

Using the Entrepreneur Concept to Bind Economics to Praxeology

I claim that Mises used the entrepreneur concept to bind economics to praxeology. If I am correct, I should be able to find an immediate reference to the entrepreneur in Mises's chapter on scope and method. It would help my case if I could report that immediately after describing the “incontestable procedure” of economics, he referred to the entrepreneur. In fact, he does follow his

¹Mises could have presented his case more clearly by always using the term “theorem” to refer to a deduction in economics based on a combination of praxeological categories and subsidiary assumptions. Larry White (1977: 16) recognizes this aspect of a praxeology-based economics. Unfortunately, Mises often used other terms to refer to theorems. An example is “law of marginal utility” (Mises 1966: 118-127), which is the last of the theorems listed here. Another example is the “law of returns” (*ibid.*: 127-131), a theorem that labor yields disutility (*ibid.*: 132), which is the law of the supply of every kind of specialized labor (*ibid.*: 135).

discussion with a subsection on “The Maximization of Profits.” He writes that if by “maximizing profits” one “means that a man in all market transactions aims at increasing to the utmost the advantage derived,” he means only “what is implied in the very category of action” (*ibid.*: 242). That is, given this meaning of profit, their maximization in a market economy is tantamount to the isolated actor's use of means achieve ends. Here, then, is a subtle link between the economic concept of profit and the praxeological concept of the use of means.

Unfortunately for me, however, Mises does not write about the entrepreneur's profit but about the “businessman's” profit. Moreover, he goes on to say that the businessman, along with others in the market economy, “is a servant of the consumers” (*ibid.*: 240).

The Method of Imaginary Constructions

The reason why he does not introduce entrepreneurship immediately is that he wants the reader to realize that this concept is derived by using a particular method – a method he calls the method of imaginary constructions. This entails building an image of an economy that contains no action and then introducing a role that performs all of the distinctly human action. The image is the evenly rotating economy and the role is the entrepreneur. Thus, he writes that the evenly rotating economy is “both appropriate and indispensable” for treating

the relation between the prices of products and those of the factors required for their production, and the implied problems of entrepreneurship and of profit and loss. In order to grasp the function of entrepreneurship and the meaning of profit and loss, we construct a system from which they are absent. This image is merely a tool for our thinking. It is not the description of a possible and realizable state of affairs (*ibid.*: 348).

Thus, what might otherwise be a direct binding of economics to praxeology via the concept of the entrepreneur is compromised by his desire to demonstrate the method that is used to isolating

entrepreneurship from other market economy characteristics. Why does he do this? The answer seems to be related to what he had written about the procedure of economics in his chapter 2. He has written that the procedure entails the use of discursive reasoning and “logically unassailable ratiocination.” It turns out that this refers to the use of the method of imaginary constructions.

The Problem

Mises aims to bind economics to praxeology but he does not directly say that to do so requires any particular method. In fact, he uses the concept of the entrepreneur as the bonding agent, so to speak. But let us approach the method he uses from a different perspective. Shortly after he writes about the procedure of economics in his treatise, he embarks on a project of defining distinctly human action. His procedure is to successively identify three such properties in three separate chapters: the use of means to achieve ends, time, and uncertainty (*ibid.*: ch. 4, 5 and 6). My method of showing how he bound economics to praxeology is to show that he used the entrepreneur function to represent the active elements in causing means to be used to achieve ends, and that the entrepreneur function embodies uncertainty and time.

By careful scrutiny, one can find two broad pieces of evidence of Mises's uses of concept to substantiate my claim about the entrepreneur function as the bonding agent. The first is in his introductory chapter on economics, chapter 14. It consists of his using the entrepreneur function to embody the property of uncertainty entailed in using financial capital to help cause goods to be produced and sold. The second piece of evidence is his treatment of the relationship between entrepreneurial profit and originary interest. He used this concept to help capture the praxeological

property of the time at which ends are achieved. It is not necessary for me to show that entrepreneurship embodies the use of means, since this is evident in his remarks about the entrepreneur being the “driving force” of the market economy, which I quoted in the introductory paragraph of Part One of this chapter.

The Entrepreneur Function as the Embodiment of Uncertainty

After describing the imaginary constructions of the pure market economy and the evenly rotating economy, Mises begins his discussion of the entrepreneur function by distinguishing between the terms used by historians in their descriptions and classifications of events and the terms used in economics. He writes that “[w]hen economics employs the...terms entrepreneur, capitalist, landowner, worker, and consumer,...it speaks of catallactic categories.” The categories “refer to purely integrated functions” (*ibid.*: 251).² He adds that “economics, exploring the structure of acting in the market society without any regard to the ends people aim at and the means they employ, is intent upon discerning categories and functions” (*ibid.*: 252). Mises does not mean “without any regard to.” He means “regardless of which.” He is writing about a kind of pure economic theory – a theory that would apply to any particular ends and means, so long as economic calculation occurs.

²See also the statement about the entrepreneur as a function at *ibid.*: 61. The difference between the two statements is that, in the later part of the book, he aims to describe economic interaction. Thus he adds other “functions” to the function of the entrepreneur.

Uncertainty and the Imaginary Construction of the Pure Entrepreneur

The entrepreneur, Mises says, embodies the function of “acting man exclusively seen from the aspect of the uncertainty inherent in every action” (*ibid.*: 253, as quoted above). How can the human mind see the entrepreneur exclusively from the aspect of uncertainty? Mises answers this by referring to the evenly rotating economy. On the previous page, he had contrasted action in a market economy with an evenly rotating economy. The evenly rotating economy is an economy populated by automatons who repeat the same behavior again and again. In contrast to the evenly rotating economy, “the outcome of action [in a market economy] is always uncertain [because] it is affected by every incorrectly anticipated change in the data occurring in the period of time between its beginning and the end of the period for which it aimed to provide...” (*ibid.*: 252). Because these changes are not correctly anticipated, every action is uncertain. The evenly rotating economy, however, “eliminates any change of data that could affect prices” (*ibid.*). The conclusion he reaches is that “[i]n any real and living economy, every actor is always an entrepreneur and speculator...” (*ibid.*).³ Thus, the human mind can perceive acting man from the uncertainty aspect by employing the auxiliary device of the evenly rotating economy. The evenly rotating economy, which contains no uncertainty, stands in contrast to a real market economy, which contains entrepreneurship.

What does Mises mean by uncertainty? One answer lies with the causes he specifies. Changing data refer to changes in the “the bodily and psychological features of the acting men, their desires and value judgments, and the theories, doctrines, and ideologies they develop in order to adjust themselves purposively to the conditions of their environment and thus to attain the ends they are

³Exceptions to the “every actor” class are made for minor family members (*ibid.*: 252) and also for people who lack what he calls vital energy (*ibid.*: 490).

aiming at” (*ibid.*: 646). They do not refer to unpredicted changes in the natural environment, or in material factors, at least not directly. They refer directly to the uncertainty of one subject about another’s future actions. A good name for this is *intersubjective uncertainty*.⁴ This is what he means by uncertainty.

Intersubjective uncertainty is a necessary property of every actor the market economy. When the economist speaks of “the entrepreneur,” he has in mind the embodiment of intersubjective uncertainty in what he calls an imaginary entrepreneur function.

Although it is possible to embody uncertainty in a function, it is not so easy to identify a terminology to help the economist keep in mind the requirement that uncertainty is present in all economic interaction. Mises demonstrates this fact when he conducts a mental experiment in an effort to capture the concept of the entrepreneur function. He tries

to think the imaginary construction of a entrepreneur function to its ultimate logical consequences. This entrepreneur does not own any capital. The capital required for his entrepreneurial activities is lent to him by the capitalists in the form of money loans. The law, it is true, considers him the proprietor of the various means of production purchased by expanding the sums borrowed. Nevertheless he remains propertyless as the amount of his assets is balanced by his liabilities. If he succeeds, the net profit is his. If he fails, the loss must fall upon the capitalists who have lent him the funds. Such an entrepreneur would, in fact, be an employee of the capitalists who speculates on their account and takes a 100 per cent share in the net profits without being concerned about the losses. But even if the entrepreneur is in a position to provide himself a part of the capital required and borrows only the rest, things are essentially not different. To the extent that the losses incurred cannot be borne out of the entrepreneur's own funds, they fall upon the lending capitalists, whatever the terms of the contract may be. A capitalist is always also virtually an entrepreneur and speculator. He always runs the chance of losing his funds. There is no such thing as a perfectly safe investment (*ibid.*: 253).

The inability to unambiguously define the entrepreneur function leaves him no alternative but to use the phrase “entrepreneurs and capitalists” in places where he might otherwise use the pure entrepreneur concept. This awkward formulation, which he uses repeatedly in his treatise, constitutes

⁴Intersubjective uncertainty is elucidated further at *ibid.*: 110-113, where Mises uses the term “case probability.”

the bond between praxeology and economics. It is what I mean and Mises means by the entrepreneur function. To perform the entrepreneur function means to cause goods to be produced and to bear the intersubjective uncertainty associated with the production and sale of resources and goods. The function is performed by entrepreneurs and capitalists.

The entrepreneur function is the “entity” through which economic theorems must be traced in order to assure that they have a praxeological foundation. In other words, to be assured that economic theorems pertain to distinctly human action, the economist must define an economic theorem in terms of what entrepreneurs and capitalists are assumed to be uncertain about. Or, to state the obverse, the economist must define an economic theorem by specifying the knowledge and expectations that he assumes to be possessed by the entrepreneurs and capitalists. Failure to do so is highly likely to lead to error. The theorems are likely to be based on fallacious syllogisms that are absurd and nonsensical (*ibid.*: 237).⁵

Originary Interest

Time is relevant to action because an individual possesses time preference.

Time preference is a categorial requisite of human action. No mode of action can be thought of in which satisfaction within a nearer period of the future is not— things being equal— to that in a later period. The very act of gratifying a desire implies that gratification at the present instant is preferred to that at a later instant (*ibid.*: 484).

The praxeological concept of time in a market economy manifests itself in what Mises's calls originary interest. This is the “discount of future goods as against present goods” (*ibid.*: 524). And

⁵It should go without saying that an economic theorem is concerned with the entrepreneur function's production of consumer goods. Thus the theorem must be about this driving force of production under market economy conditions. Or at least Mises assumes that it must be. See his discussion of the hired manager at *ibid.*: 307.

this category “manifests itself primarily in the interest on loans” (*ibid.*: 538). The isolated actor obviously possesses time preference. And Mises says that the concept of originary interest represents this property of action for a market economy. Economic theorems that are based on the concept of originary interest, including the Austrian theory of the trade cycles (*ibid.*), must be capable of being traced back to the category of action. As in the case of uncertainty, this is accomplished via the entrepreneur function. Mises writes that “[i]t was only the elaboration of the imaginary construction of the evenly rotating economy that made it possible to distinguish precisely between originary interest and entrepreneurial profit and loss” (*ibid.*: 536).

To understand what Mises means by this, we must explore the meaning of originary interest under three conditions: the imaginary construction of the functional distribution, the imaginary construction of the evenly rotating economy, and the market economy. I begin with the functional distribution, which is the condition that Mises assumes when he first uses the term in his treatise.

He writes:

Capitalist and landowner mean acting man in regard to the changes in value and price which, even with all the market data remaining equal, are brought about by the mere passing of time as a consequence of the different valuation of present goods and of future goods. Worker means man in regard to the employment of the factor of production human labor. Thus every function is nicely integrated: the entrepreneur earns profit or suffers loss; the owners of means of production (capital goods or land) earn originary interest; the workers earn wages. In this sense we elaborate the imaginary construction of the functional distribution as different from the actual historical distribution” (*ibid.*).

Originary interest in this paragraph refers to the income earned by the owners of the factors of production. Three items seem to stand out in this paragraph. First, he conceives of a capitalist who bears no uncertainty. Second, he equates the capitalist with a landowner. Third, both of these factor owners earn originary interest because they are willing to forego some amount of satisfaction in the

nearer future in order to enjoy an amount in the more distant future. They do not receive *rent*. They receive a payment that corresponds to what originary interest would be if it could exist in unalloyed form and without reference to the fact that in a market economy, the goods available in the more distant future do not match those that are available in the nearer future.

To understand originary interest in the functional distribution, one must understand it in another imaginary construction in which the same conditions prevail, with the exception of the entrepreneur function. This is the evenly rotating economy. Originary interest in the ERE and in the imaginary construction of the functional distribution refers to the income that would be received by passive, robotic owners of the non-human factors of production. It corresponds to what classical economists would have called rent on land and capital goods. One can imagine that the owner receives this because she elects to rent out the factor rather than sell it off and use the money to buy consumer goods or to let it sit idle. She retains ownership because she prefers to consume some of the goods that she believes she can (and will be able to) buy in the more distant future with her future factor income rather than in the nearer future. Because the entrepreneur function pays for the resources, her ownership of them yields an income both in the near and in the more distant future.

In an evenly rotating economy, originary interest would be the income needed to replace the consumed capital or land. For factors that are used up during a production process, that income is paid to replace the factors that were used up (*ibid.*: 530-1). If this was not so, there would be insufficient future consumer goods for the evenly rotating economy to persist. Owners of permanent factors of production – the factors that do not wear out – earn originary interest.

Now consider originary interest in the market economy. Pure originary interest cannot exist in this situation. It gets mixed together with two other forms of income: entrepreneurial profit and entrepreneurial wages. It is easy, Mises says, to “precipitate out” “entrepreneurial wages “from the complex of all the other items included in the profit concept of classical economics” (*ibid.*: 535).

However,

in every act of lending, even apart from the problem of changes in the monetary unit's purchasing power, there is an element of entrepreneurial venture. The granting of credit is necessarily always an entrepreneurial speculation which can possibly result in failure and the loss of a part or of the total amount lent. Every interest stipulated and paid in loans includes not only originary interest but also entrepreneurial profit (*ibid.*: 536).

As a result, “the interest stipulated in loan contracts is always a gross magnitude out of which the pure rate of originary interest must be computed by a particular process of computation and analytical repartition” (*ibid.*).

It follows that, in a changing economy – i.e., in the pure market economy and in every real market economy – the function of the entrepreneur does not appear in unalloyed form. Neither does the corresponding category of entrepreneurial profit. They are always combined with originary interest and entrepreneurial wages. The functional categories of the owners of capital and land earn originary interest and the supplier of bare labor earns wages (*ibid.*: 502-3). But a real lender performs both functions because “a capitalist is always also virtually an entrepreneur...” (*ibid.*: 253, as quoted above).

Discussion

In order to understand how Mises uses the entrepreneur function to bind economics to praxeology, it is necessary first to recognize that making this bond is one of the major purposes in

his treatise. Having recognized this, one must go on to interpret his discussion of the entrepreneur function at least partly in terms of whether it helps Mises achieve the purpose. It is difficult to see how the typical reader could do this unless she reads *Human Action* as a gestalt. Mises certainly stated this purpose. But he did not say anything specific about how to achieve it. Moreover, to determine that Mises used the entrepreneur function to help achieve it, the reader would have to learn that the method he uses to achieve this is the method of imaginary constructions and that he defines the entrepreneur function by means of two of these constructions: the pure market economy and the evenly rotating economy. It also seems necessary to realize that in place of “entrepreneur function,” he often uses the phrase “entrepreneurs and capitalists.” Beyond this, the typical reader would probably want to know why early neoclassical economists abandoned the distinction between natural and produced factors of production. Finally, she would have to comprehend the meaning of ordinary interest and how the concept is manifest in both the evenly rotating economy and pure market economy. Suffice it to say that it is difficult to see how a typical reader could reach the conclusion that Mises aimed to use the entrepreneur function to maintain the bond between praxeology and economics. Yet Mises surely expected the reader to be able to do this.

2. CONSUMER SOVEREIGNTY AND THE ENTREPRENEUR FUNCTION

Mises tells his readers that the ultimate goals of economics are to first learn how to evaluate interventionist arguments and second to educate the public on what is learned.⁶ Logically, to achieve the first goal, one must first establish criteria for evaluating interventionist arguments and then follow the “incontestable procedure” described above. The procedure is to build an image of the pure market economy and then to turn one’s attention to market intervention. Mises does both of these. He develops the concepts of consumer sovereignty and the entrepreneur function as part of his production of an image of the pure market economy.

Regrettably, while the logic of this accomplishment is sound, only the most dedicated reader could discover it in Mises’s treatise. It is difficult to know where to begin in describing the presentation deficiencies, at least from a modern reader’s point of view. Perhaps the best place is to point out that he does not tell his readers that he *intentionally* builds the image of the pure market economy and the role of the entrepreneur in such a way that the entrepreneur function must *always* act in the interest of the consumer. As a result, a skeptical reader is inclined to believe that Mises surreptitiously inserted a value judgment into his image in order to persuade the uninformed reader to accept his views. A sympathetic reader would either be apologetic or treat it as something different from what it is. Evidence for the latter appears in the reaction of his American students to the section

⁶See the first full paragraph at *ibid.*: 10 and the last paragraph at *ibid.*: 885.

in his treatise on consumer sovereignty.⁷ Neither of these prominent American Austrians appreciated what I have called the second purpose of using the entrepreneur concept. This brings me to a second deficiency. Mises did not directly say that consumer sovereignty is based on the PHRUI. This must be inferred. Consumer sovereignty, as he uses the term, reflects his assumption that everyone who makes an interventionist argument takes it for granted that such a construct is consistent with the criteria one would use to evaluate such an argument. Even if the reader could figure this out, he might not take the next step. Mises did not tell his readers the reason why he decided to defined the entrepreneur role in the pure market economy as, except for error, necessarily benefitting individuals in their role as consumers. He at least stated that monopoly is due to factor ownership and not to entrepreneurship. But he did not tell the reader the reason why he insisted on this.

Even the most careful reader is in the strange position of knowing that Mises believed value freedom to be possible if the PHRUI is used to evaluate arguments but realizing that Mises did not use that criterion. Instead, he used consumer sovereignty as the criterion. Unless such a reader could herself make the connection between the classical economists' criterion to evaluate interventionist arguments and that used by the early neoclassical economists, she may fail to make the connection between the two. As a result, she would not understand the significance of the monopoly problem to Mises and she would have no basis for claiming that Mises achieved his goal of value freedom. For the reader who doubts my interpretation, I provide some page references to support my claim.

⁷Israel Kirzner and acknowledges the importance of the concept (1999b: 220) to Mises's economics but, instead of recognizing its derivation from the PHRUI, he sees it as an effort to complete "Menger's vision" (*ibid.*: 223-5). He refers to consumer sovereignty as a "doctrine" and claims that its value freedom derives from the fact that Mises's intent was to complete Menger's vision rather than from the PHRUI, as I have claimed in this chapter (Kirzner, 2001: 108-110). Murray Rothbard (2004: xliii, 636-643) rejects consumer sovereignty as either an error or an expression of unacceptable values.

However, these references are not a good substitute for forming the gestalt that is necessary to gain the level of confidence I currently have in this interpretation.

Because Mises himself does not present the logic of his argument, I must begin this section by doing so for him. After that, I describe the part played by consumer sovereignty and the entrepreneur function in helping to achieve value freedom.

The third deficiency is the order of the Mises's presentation. Mises does not discuss consumer sovereignty until after he defines the pure market economy. And he does not describe the PHRUI until after he completes the task of exploring all of the characteristics of the pure market economy that he planned to do in his treatise. As a result, to identify the logic of Mises's presentation, one must skip ahead and back. In light of these deficiencies, I begin this section by describing the criterion that Mises uses for evaluating interventionist argument. Only after this is done to I turn to his statements about the entrepreneur. I end the section by citing the some textual evidence to support my interpretation.

The Ultimate Criterion for Evaluating Interventionist Arguments

Mises's ultimate criterion for evaluating interventionist arguments is what he calls the law of the higher productivity of the division of labor. He writes that “[h]uman society is an intellectual and spiritual phenomenon. It is the outcome of a purposeful utilization of a universal law determining cosmic becoming, viz., the higher productivity of the division of labor” (Mises 1966: 145). This law was proposed by the classical economists. They went on to extend it, Mises writes, by recognizing that, under the conditions of a market economy, individuals who aim to serve their own interests also

serve the general interest. Consider an extended quotation from his chapter 24 entitled “Harmony and Conflict of Interests.”

What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural conflict of interests. For where there is division of labor, there is no longer question of the distribution of a supply not capable of enlargement. Thanks to the higher productivity of labor performed under the division of tasks, the supply of goods multiplies. A pre-eminent common interest, the preservation and further intensification of social cooperation, becomes paramount and obliterates all essential collisions. Catallactic competition is substituted for biological competition. It makes for harmony of the interests of all members of society. The very condition from which the irreconcilable conflicts of biological competition arise – viz., the fact that all people by and large strive after the same things – is transformed into a factor making for harmony of interests. Because many people or even all people want bread, clothes, shoes, and cars, large-scale production of these goods becomes feasible and reduces the costs of production to such an extent that they are accessible at low prices. The fact that my fellow man wants to acquire shoes as I do, does not make it harder for me to get shoes, but easier. What enhances the price of shoes is the fact that nature does not provide a more ample supply of leather and other raw material required, and that one must submit to the disutility of labor in order to transform these raw materials into shoes. The catallactic competition of those who, like me, are eager to have shoes makes shoes cheaper, not more expensive.

This is the meaning of the theorem of the harmony of the rightly understood interests of all members of the market society. When the classical economists made this statement, they were trying to stress two points: First, that everybody is interested in the preservation of the social division of labor, the system that multiplies the productivity of human efforts. Second, that in the market society consumers' demand ultimately directs all production activities (*ibid.*: 673-4).

It is clear in this passage that he aims to make what he calls the theorem of the division of labor the basis for the what he calls the theorem of the harmony of rightly understood interests. Also, his reference in the last sentence to consumers strongly suggests that the theorem finds expression in a market economy through the principle of consumer sovereignty. A more accurate term than “theorem,” I believe, is “principle,” since this is the criterion that Mises uses to evaluate interventionist arguments. Thus, I use this term in subsequent discussion.

From the Principle of the Harmony of Rightly Understood Interests to Consumer Sovereignty

Regrettably the above discussion does not mention the entrepreneur. Moreover, it occurs long after Mises had introduced this concept. It is evident, however, that he had the entrepreneur function

in mind, since an earlier discussion in the same context did refer to it. The market economy, he had pointed out, is characterized by changes in the data. Such changes are the source of entrepreneurial profit and loss (*ibid.*: 664). The function of the entrepreneur is to anticipate and adjust to such changes. In doing this, the entrepreneurs are the mandatories of the consumers. Accordingly, there are no conflicts of interest in the market economy. Of course, individuals may lack foresight. Moreover, the entrepreneurs' adjustment actions inevitably harm some individuals. However, to inhibit the adjustment process in order to avoid such harm would reduce the advantages to be gained from the higher productivity of the division of labor (*ibid.*: 664-6). Thus the greater productivity of the division of labor is the basis for both the PHRUI and the principle of consumer sovereignty.

Commentary

A somewhat amazing fact about Mises's presentation of criteria for evaluating interventionist arguments is that he reverses the order of the argument. Long before he clearly articulates the PHRUI and its connection to consumer sovereignty, he had built his theory of the pure market economy on the consumer sovereignty principle's foundation (chapters 14, 15, and 16). He waited until chapter 24 to articulate the PHRUI. To someone who neglects to read ahead, his theory of the pure market economy must seem a biased polemic. The ordinary reader is unable to determine that the theory is intended specifically to deal with interventionist arguments based on the principle of rightly understood interests. The typical reader would never be led to the logical deduction that a denial of the consumer sovereignty principle by a person who makes an interventionist argument is tantamount to a denial of the principle of the higher productivity of the division of labor. Even in the chapter

where he ties together the PHRUI and consumer sovereignty, he seems to defy the logical order of presentation by writing of consumer sovereignty first.

It is no surprise, then, that Mises's theory of the pure market economy – and the corresponding entrepreneur function that is always the mandatory of the consumer (see below) – has been discounted by his readers. Readers could not possibly have assigned the importance to the entrepreneur function that Mises himself assigned. Be that as it may, if our goal is to understand Mises's theory of the entrepreneur, we must reverse the order of presentation so that the reader does, in fact, appreciate the two principles and their relation to the pure market economy. For only then can the reader also appreciate the difficulties entailed in that theory and how Mises sought to overcome them.

The Entrepreneur as the Mandatory of the Consumer

To transform the PHRUI into consumer sovereignty, it is necessary to understand Mises's approach to evaluating interventionist arguments. His statement of this approach is in his section in chapter 14 on the pure market economy. He writes:

The imaginary construction of a pure or unhampered market economy assumes that there is division of labor and private ownership (control) of the means of production...Starting from these assumptions economics tries to elucidate the operation of a pure market economy. Only at a later stage, having exhausted everything which can be learned from the study of this imaginary construction, does it turn to the study of the various problems raised by interference with the market on the part of governments and other agencies employing coercion and compulsion (ibid.: 237-8).

Note the phrase in this statement: “study of the various problems raised by interference.” This seems to be a deliberately vague statement. He could refer to theorems. He could say that economics first tries to produce economic theorems that are relevant to the pure market economy. It then turns its

attention to producing economic theorems that are relevant to the hampered market economy in order to evaluate arguments about the consequences of government hampering.

Such a means of expression would have clarified at least part of his intention. It would have led the typical reader to appreciate that the procedure is indeed incontestable. However, it would still not have conveyed the message that his evaluation of interventionist arguments was to be conducted on the basis of the principle of consumer sovereignty. In fact, he does not define consumer sovereignty until the following chapter.⁸

Before I comment further on this procedure, consider how he defines consumer sovereignty and how he regards it as relevant. His discussion begins in his 2-4 page section on the “Sovereignty of Consumers” (*ibid.*: 269-72) and continues in his section on “Monopoly Prices” in chapter 16. He begins the section on consumer sovereignty in chapter 15 with a statement about entrepreneurs. They direct “all economic affairs;” they are “at the helm of the ship.” But “[t]he captain is the consumer” (*ibid.*: 269-70). Nevertheless,

There is in the operation of a market economy only one instance in which the proprietary class is not completely subject to the supremacy of the consumers. Monopoly prices are an infringement of the sway of the consumers (*ibid.*: 271-2, as quoted above).

Then, in a critical passage on consumer sovereignty in chapter 16, he introduces the exception of monopoly, he writes:

The entrepreneur in his entrepreneurial capacity is always subject to the full supremacy of the consumers. It is different with the owners of vendible goods and factors of production and, of course, with the entrepreneurs in their capacity as owners of such goods and factors. Under certain conditions they fare better by restricting supply

⁸He does refer obliquely to consumer sovereignty in this section. See his discussion of the businessman at (*ibid.*: 240). However, this is not enough to convey the message that he assumes that interventionist arguments are made by individuals who accept the principle of harmony of rightly understood interests.

and selling it at a higher price per unit. The prices thus determined, the monopoly prices, are an infringement of the supremacy of the consumers and the democracy of the market (*ibid.*: 358).

And:

Entrepreneurial profit has nothing at all to do with monopoly. If an entrepreneur is in a position to sell at monopoly prices, he owes this advantage to his monopoly with regard to a monopolized factor *m*. He earns the specific monopoly gain from his ownership of *m*, not from his specific entrepreneurial activities (*ibid.*: 360).

What he is saying in these statements is that the entrepreneur “in his entrepreneurial capacity,” is always a mandatory of the consumer but that the owner of a resource may not be. What is this “entrepreneurial capacity?” It is the capacity associated with the entrepreneur function, as defined in part 1 of this essay, and as Mises elucidates it with examples in other parts of his treatise where he uses the phrase “entrepreneurs and capitalists.”

Commentary

One cannot appreciate Mises's comments on the entrepreneur as a mandatory of the consumer until we know why he wants to build an image of a market economy that incorporates this idea. Yet Mises he does not discuss consumer sovereignty by that name until after he introduces the pure market economy. His image of the pure market economy contains it but the reader does not learn about this at the most opportune time. Moreover, if she is disposed to treat Mises's discussion of consumer sovereignty as a polemic or to discount it, she may completely disregard the possibility.

This is another case where he reverses what would seem to be the logical order or presentation. Why not tell readers that he aims to build a concept of the pure market economy that incorporates

the principle of consumer sovereignty – and the underlying PHRUI – before he presents the image of the pure market economy?

The Entrepreneur Function and the Structure of *Human Action*

I can now return to the procedure Mises uses to apply the principle of consumer sovereignty and its correlative concept, the entrepreneur function, to the evaluation of interventionist arguments. Mises clearly structures his treatise in such a way as to indicate that he tries to follow the “incontestable procedure,” referred to earlier in the essay, of first elucidating the pure market economy and then turning to intervention. procedure. Chapters 14 to 24 are in part 4 of his treatise, which he entitles “Catalactics or Economics of the Market Society.” This is the longest part of the book. Part 5 consists of only two chapters, 25 and 26. It is entitled “Social Cooperation Without a Market.” It is one of the shortest parts. He entitles part 6 “The Hampered Market Economy.” It is the second largest part in the treatise and consists of ten chapters. Thus, after presenting a long part 4 on the economics of the market society, he goes on to present a long part 6 on the hampered market. Near the end of his introductory chapter in part 6, he writes:

In dealing with the catalactics 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 (*ibid.*: 734).

Note is the use of the phrase “entrepreneurs and capitalists.” This is equivalent to the entrepreneur in his entrepreneurial capacity and to the entrepreneur function. Thus, the economics of intervention, Mises says, is concerned with how the intervention changes the performance of the entrepreneur function.

Evidence from the Treatise

I have no doubt that Mises aimed to co-relate the entrepreneur function and consumer sovereignty. He wanted the entrepreneur function to be strictly and completely subject to the sovereignty of the consumers. The reason for this, I am almost certain, was to link the classical economists' PHRUI to consumer sovereignty, which he believed would enable a praxeological-based economics to carry out value free-evaluations of interventionist argument. It could achieve this by contrasting the operation of the entrepreneur function under pure market economy conditions with its operation under conditions that correspond to a proposed intervention.

Regrettably, the typical reader is unlikely to recognize this. Nevertheless there is evidence from the Treatise that Mises has it in mind at the very position in his treatise where he introduces the pure market economy and his procedure for evaluating such arguments. He writes in the section entitled "The Pure Market Economy" that economists have drawn the conclusion that "practically even all people" are best served by the free market system and that this conclusion is a consequence of "a careful and unbiased scrutiny of all aspects of interventionism." Then, without hesitation, he turns to a discussion of the classical economists' discovery that the public interest was served by people acting in their self interest. Then, in a subsection in the same section entitled "The Maximization of Profits," he writes that the maximization of profit means only that "a man in all market transactions aims at increasing to the utmost the advantage derived" (*ibid.*: 242). He goes on: "In his capacity as a businessman a man is a servant of the consumers, bound to comply with their wishes" (*ibid.*: 240). This, of course, is consumer sovereignty and the businessman is performing the entrepreneur function. He simply does not label these ideas in this way at this stage of his treatise.

Thus, he introduces both the harmony of rightly understood interests and consumer sovereignty at an opportune point for a reader who has read ahead to understand the relationship between it and the pure market economy. But he does not explicitly say that he is introducing it and he does not identify his purpose for introducing it. So it is no wonder that the typical reader would skip over it. The typical reader is very unlikely to have read ahead and then to have hypothesized that Mises would present his economics and its justification in reverse order.

3. INDIVIDUAL DIFFERENCES, THE PROMOTING ENTREPRENEURS, AND THE MARKET PROCESS

The third purpose that Mises aimed to achieve with his concept of the entrepreneur was to develop economic theorems about an economy containing many individuals who act in the role of the entrepreneur. Such theorems are deductions concerning the outcome of interaction “among entrepreneurs.” A less informative way of saying the same thing is that he aimed to describe the *market process*. I prefer to express this idea by referring to theorems because such nomenclature is more consistent with the logic of action that Mises set out to produce.

Three sets of outcomes can be identified in the treatise: (1) economic growth, (2) the tendency for the gains from growth to be distributed to consumers and owners of the factors of production, and (3) the tendency for factor-of-production and entrepreneur candidates who best contribute to the satisfaction of consumer wants to be selected into the tasks of causing goods to be produced. Mises

developed these theorems in association with his elucidation of what he saw as a somewhat different concept of the entrepreneur – the promoting entrepreneur.

Introduction of the Promoter Entrepreneur

At the time he introduces the promoter entrepreneur concept, in Chapter 14, Mises's definition seems vague and he gives only a hint of how he plans to use it. Promoting entrepreneurs, he says, are people who are “especially eager to profit from adjusting production to the expected changes in conditions, those who have more initiative, more venturesomeness, and a quicker eye than the crowd, the pushing and promoting pioneers of economic improvement” (*ibid.*: 255) These characteristics, he says, represent

a *datum* that is a general characteristic of human nature, that is present in all market transactions and marks them profoundly. This is the fact that various individuals do not react to a change in conditions with the same quickness and in the same way (*ibid.*, italics added).

The promoter is “restless,” he says. In combination with her desire to maximize profit, the “restlessness of the promoter” is “[t]he driving force of the market” and “the element tending toward unceasing innovation and improvement.”

Unlike the other two purposes, the purpose of producing economic theorems is straightforward. No doubt, this explains the fact that among all of the ideas in his treatise, the one that seems most well recognized today is his theory of the market process. In the following, I describe three theorems. Because the presentation of the economic theorems is straightforward, for the most part, I merely quote Mises's text with little analysis. I follow the description of the theorems with a presentation

of what I deduce to be Mises's conception of the market process. Finally, I briefly compare the promoter entrepreneur concept with the entrepreneur function.

Theorem 1: Growth Is Due to Saving and Technological Change

Mises's logic of growth is based on the assumption that people agree on what growth is. People agree that growth is an increase in consumer goods from one period to the next. Mises represents this assumption by describing growth only in a "progressing economy." This is an imaginary construction in which "the per capita quota of capital invested is increasing" (*ibid.*: 294). A progressing economic can exist; and growth can occur in such an economy if there is an increase in capital goods.

Capital goods are goods that

prolong the average period of time elapsing between the beginning of the production process and its turning out of a product ready for use and consumption. The products accumulated for this purpose are either intermediary stages in the technological process, i.e. tools and half-finished products, or goods ready for consumption that make it possible for man to substitute, without suffering want during the waiting period, a more time-absorbing process for another absorbing a shorter time (*ibid.*: 260).

An increase in capital goods can occur as a consequence of saving – consumers deciding to consume fewer near-future consumer goods (and more distant-future goods) than otherwise. Or it can occur as a result of technological advance. In a somewhat poetic statement, he calls these two non-distinctly human action sources of growth the "vehicles" of progress.⁹ The "agents" of progress are the promoting entrepreneurs. The logic is captured in the following quotation:

The vehicle of economic progress is the accumulation of additional capital goods by means of saving and improvement in technological methods of production the execution of which is almost always conditioned by the availability of such new capital. The agents of progress are the promoting entrepreneurs intent upon profiting by means of adjusting the conduct of affairs to the best possible satisfaction of the consumers (*ibid.*: 297).

⁹I call an increase in saving a "non- distinctly human action" factor because one can imagine an animal community in which, say, a genetic mutation causes an increase in saving.

In this discussion, the competing promoting entrepreneurs are the distinctly human cause of growth. This is consistent with an earlier statement 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).

A remarkable fact about Mises's discussion is that he does not stress deliberate efforts by the entrepreneurs to conduct research on new methods of production. He does not, for example, mention that improvement in technological methods may be the consequence of deliberate research and experimentation.¹⁰

Theorem 2: Bidding by Promoting Entrepreneurs Tends to Cause Gains From Growth to be Distributed to Consumers and Owners of Resources

In the same section as his discussion of economic growth, Mises discusses the distribution of the gains from exchange under market economy conditions. He writes that there is “an inherent tendency for profits and losses to disappear. The market is always moving toward the emergence of the final prices and the final state of rest.” (*ibid.*: 295). In such a situation, the “laws of the market divide this additional wealth between the entrepreneurs and the suppliers of labor and those of certain material factors of production in such a way that the lion's share goes to the nonentrepreneurial groups” (*ibid.*:

¹⁰Earlier in the treatise he writes about the promoter's eagerness to profit causing the market economy to tend toward “unceasing innovation and improvement” (*ibid.*: 5). And later in the treatise he writes about the wise investment by entrepreneurs (*ibid.*: 609). However, it is unclear how much weight he attaches to these statements and even whether he recognizes that additional saving is not necessary for entrepreneurs to have an incentive to use their imagination, creativity, and inventiveness to invent new products and methods of production. Since this is so obvious, however, I regard his neglect as an oversight.

294). “All these changes in the prices of the factors of production begin immediately with the initiation of the entrepreneurial actions designed to adjust the processes of production to the new state of affairs (*ibid.*: 296)”:

What happens is this: The entrepreneurs embarking upon the utilization of the newly accumulated capital goods and the improved technological methods of production are in need of complementary factors of production. Their demand for these factors is a new additional demand which must raise their prices. Only as far as this rise in prices and wage rates occurs, are the consumers in a position to buy the new products without curtailing the purchase of other goods. Only so far can a surplus of the total sum of all entrepreneurial profits over all entrepreneurial losses come into existence.

If the additional wealth is due to increased saving, the owners of capital goods gain, due to “their restraint in consuming.” The owners of existing capital goods may gain or lose depending on whether their prices rise. However, their gains are temporary, since the gains will decline as more capital goods are produced due to the profit inducement toward higher capital goods production. Landowners also gain (*ibid.*: 296).

Theorem 3: Entrepreneurs Themselves and the Factors of Production Are Selected on the Basis of Their Contribution to Consumer Wants

Mises points out that economic “competition is emulation between people who want to surpass one another” (*ibid.*: 274). Moreover, consistent with the principle of consumer sovereignty, he writes:

To assign to everybody his proper place in society is the task of the consumers. Their buying and abstention from buying is instrumental in determining each individual's social position. Their supremacy is not impaired by any privileges granted to the individuals qua producers. Entrance into a definite branch of industry is virtually free to newcomers only as far as the consumers approve of this branch's expansion or as far as the newcomers succeed in supplanting those already occupied in it by filling better or more cheaply the demands of the consumers. Additional investment is reasonable only to the extent that it fills the most urgent among the not yet satisfied needs of the consumers (*ibid.*: 275).

Later in the same chapter, he refers to this assignment of people as the “selective process.”

The selective process of the market is actuated by the composite effort of all members of the market economy. Driven by the urge to remove his own uneasiness as much as possible, each individual is intent, on the one hand, upon attaining that position in which he can contribute most to the best satisfaction of everyone else and, on the other hand, upon taking best advantage of the services offered by everyone else. This means that he tries to sell on the dearest market and to buy on the cheapest market. The resultant of these endeavors is not only the price structure but no less the social structure, the assignment of definite tasks to the various individuals. The market makes people rich or poor, determines who shall run the big plants and who shall scrub the floors, fixes how many people shall work in the copper mines and how many in the symphony orchestras. None of these decisions is made once and for all; they are revocable every day. The selective process never stops. It goes on adjusting the social apparatus of production to the changes in demand and supply. It reviews again and again its previous decisions and forces everybody to submit to a new examination of his case. There is no security and no such thing as a right to preserve any position acquired in the past. Nobody is exempt from the law of the market, the consumers' sovereignty (*ibid.*: 311).

In his discussion of this process, Mises describes how the various function-performing roles are influenced by the selective process. He writes about how the capitalists, landowners, and workers are subject to “the selective function” (*ibid.*: 311-2). Then he writes about how the selective function, or process, also applies to the promoters and the selection of “captains of industry.” “Everybody has the opportunity to take his chance...The point of view from which the consumers choose the captains of industry and business is exclusively their qualification to adjust production to the needs of the consumers” (*ibid.*: 313).

The Market Process

Promoting entrepreneurs play an important role in Mises's market process.¹¹ One might say that his image of the promoter-driven market process has two characteristics. On the one hand, the

¹¹In exploring this role, the Austrian scholar would be wise to note a subtle change between the 1949 and 1966 editions of his treatise. When writing of what people in mundane speech call profit and loss, Mises points out that they have in mind the “promoters' entrepreneurial profit and loss” (*ibid.*: 288) In the 1949 edition, he does not include the word “promoters” in this phrase.

promoters are the agents of change. As such, they aim to profit by taking advantage of the opportunities to gain from exchange:

[T]he promoting and speculating entrepreneurs...are people intent upon profiting by taking advantage of differences in prices. Quicker of apprehension and farther-sighted than other men, they look around for sources of profit. They buy where and when they deem prices too low, and they sell where and when they deem prices too high. They approach the owners of the factors of production, and their competition sends the prices of these factors up to the limit corresponding to their anticipation of the future prices of the products. They approach the consumers, and their competition forces prices of consumers' goods down to the point at which the whole supply can be sold. Profit-seeking speculation is the driving force of the market as it is the driving force of production (*ibid.*: 328-9).

On the other hand, they cause the profits to disappear by availing themselves of the opportunities. As they take advantage of profit opportunities, they bid up the prices of the resources; and they bid down the prices of consumer goods:

The entrepreneurs discover discrepancies between the height of the prices of the complementary factors of production and the anticipated future prices of the products, and they are intent upon taking advantage of such discrepancies. These endeavors of the entrepreneurs would finally result in the emergence of the evenly rotating economy if no further changes in the data were to appear...[However, o]n the market agitation never stops...There are always profits to be earned by somebody. The speculators are always enticed by the expectation of profit (*ibid.*: 329).

The market process provides an important additional service for Mises. It is to contrast his economics with mathematical economics. He writes:

The mathematical economists disregard the whole theoretical elucidation of the market process and evasively amuse themselves with an auxiliary notion [the evenly rotating economy] employed in its contest and devoid of any sense when used outside of this context...A superficial analogy is spun out too long, that is all (*ibid.*: 355).

Mises could make this point about mathematical economics without introducing the role of the promoter, as he had done in his previous chapter on scope and method (*ibid.*: 250).¹² However, he chooses to associate the market process with the promoter.

¹²Indeed, one might argue that the impossibility of identifying specific roles to perform the entrepreneur function would be a telling argument against efforts to model a market economy since the entrepreneur function must be a part of the market economy.

The reader who wants to stress Mises's understanding of the market process would want to distinguish two purposes for which he uses the promoter concept: the distribution of the gains from economic progress and the selection of the factors of production. I discuss each in turn.

The Promoter vs. the Entrepreneur Function

At the point where Mises introduces the promoting entrepreneur, his focus is on the fact that it differs from the entrepreneur function. He describes that difference in terms of broadness and narrowness. He tries to explain what he means by this by referring to praxeology. He writes:.

It is to be admitted that the notion of the entrepreneur-promoter cannot be defined with praxeological rigor. (In this it is like the notion of money which also defies – different from the notion of a medium of exchange – a rigid praxeological definition.) However, economics cannot do without the promoter concept. For it refers to...the fact that various individuals do not react to a change in conditions with the same quickness and in the same way (*ibid.*: 255).

This is a curious explanation since, in the immediately preceding passages, he had said that the entrepreneur function cannot be captured in a single personage and that, as a result, it was necessary to use the phrase “entrepreneurs and capitalists” to refer to this imaginary construction (*ibid.*: 253). The typical reader would be perplexed if she tried to compare the two types of entrepreneurs. What Mises really means, I am confident, is that the promoter entrepreneur, as he plans to use the term, always performs the entrepreneur function. But the entrepreneur function can also be used to achieve other purposes that are relevant in economics. As stated in the introduction, these are to bind economics to praxeology and to help evaluate interventionist arguments on the basis of the theorem of consumer sovereignty.

4. CONCLUSION

The goal of this essay has been to describe Mises's concept of the entrepreneur. It achieved this by assuming that Mises had three purposes in developing his concept: (1) to maintain the bond between praxeology and economics, (2) to employ a role that would be devoted entirely to serving the interests of consumers in order to facilitate the evaluation of interventionist arguments, and (3) to elucidate a market process consisting of competing entrepreneurs with different abilities and eagerness to profit.

Mises accomplished his first purpose by defining the entrepreneur function in his imaginary construction of the "functional distribution" as representing uncertainty-bearing action that causes goods to be produced under the conditions of the pure market economy. To maintain the desired bond, he required that all economic theorems be traceable to the properties of distinctly human action via the entrepreneur function.

He accomplished the second purpose by defining the entrepreneur function such that all entrepreneurial action is subject to the sovereignty of the consumers. The ultimate purpose is to prepare for the evaluation of interventionist arguments based on the principle of harmony of rightly understood interests.

Mises's third purpose was to represent the competitive process in which (1) entrepreneurs are the agents of economic growth, (2) their bidding for product sales and factors of production causes the distribution of the gains from growth, and (3) their bidding causes the selection of things and actions as factors of production, including the selection of the entrepreneurs themselves. These

outcomes are in accord with the interests of consumers. To accomplish this purpose, he assumed that individuals differ in their eagerness to profit, their venturesomeness, and their quickness to perceive and anticipate events in the market economy. Assigning this characteristic to different individuals who act as promoting entrepreneur, he described a market process in which the promoters bid the prices of goods and factors of production and consumer goods to limits, while recognizing that the promoters are at the same time accounting for the continuing changes in data that prevent those limits from ever being reached.

Neo-Austrian economists have attended to only one of the three purposes that Mises aimed to achieve – elucidation of a market process. It is not surprising, therefore, that they have failed to understand Mises's entrepreneur.

Mises's theory of the entrepreneur, along with the rest of his economics, is in danger of being overlooked and overshadowed by writings on the market process that have not reached Mises's level of economic understanding. One hopes that neo-Austrians react to this essay by reviving their interest in Mises and by instilling doubt that the American students of Mises have accurately reported his ideas on this subject.

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