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**Kirzner and Rothbard on an Austrian theory of entrepreneurship: the heirs of both Menger and Mises discuss action and the role of institutions.**

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# Kirzner and Rothbard on an Austrian theory of entrepreneurship: the heirs of both Menger and Mises discuss action and the role of institutions.

Gilles Campagnolo<sup>1</sup> and Christel Vivel<sup>2</sup>

## 1. Introduction

Israel Kirzner and Murray Rothbard are often presented as “brothers (intellectually) at war” with each other. However, they display in many respects, an understanding of entrepreneurship somewhat similar, on many aspects. While Kirzner focused on the concepts of alertness and discovery by opportunity (if not by chance) as well as on the equilibrating role played by entrepreneurs, Rothbard’s contribution was more openly ideologically engaged: he first and foremost stressed the concept of free action.

Both thinkers saw Ludwig von Mises, who had emigrated from Vienna to New York, as their intellectual “father”. Kirzner borrowed his “ideal type” notion of a “pure entrepreneur” from Mises (which we will discuss later, with regard to its earlier models in Carl Menger and Max Weber), whereas Rothbard did not. Additionally, to put it in a nutshell, Rothbard considered that Kirzner’s entrepreneur was in some way “disembodied” and deprived of some traits he put forth, capital being one. We shall try to understand what this indictment meant. Conversely, there are elements of cognitive intuition in Kirzner’s view of the individual agent that do not seem to fit the “orthodox” Misesian framework that Rothbard wished to put forth. In the following text, we highlight such points of disagreement between authors who, despite these differences, walked the same path: the Austrian tenets established by Menger, Mises and Hayek. We consider first their divergences as far as we find them to be relevant, and show how it was possible to use Misesian methodology in varying manners. Our goal is to highlight both the insights and lacunas that already existed, for some of them, in earlier Austrian economic thought.

With this perspective, we explicitly build on our previous co-operation on the theory of the entrepreneur in the works of early Austrian thinkers (Campagnolo and Vivel 2011, 2012 and 2014) with the aim to extend our analysis to more recent theories. We hold that some divergences that exist now originated in earlier thought. We hold that a move “back to how the forefathers saw things and influenced recent scholars” is indispensable at present, when the Austrian school seems to be undergoing a slack period. We focus on Rothbard and Kirzner in this paper yet we also mention Lachmann, to end our triptych on “entrepreneurship in the Austrian school”.

We wish to point out from the start that Rothbard and Kirzner placed emphasis on aspects that are generally less known than what is usually noted about their works and that these aspects are a rallying point on the theory of entrepreneurship, especially regarding the figure of the *entrepreneur*. We therefore stress these aspects behind disagreement points and ask whether it is finally possible to identify a *common* view on entrepreneurship in various branches of Austrian theory. We deem this to be more relevant, as Austrian basic tenets on the entrepreneur

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(as on other aspects) were established by the founder, Menger (Campagnolo and Vivel 2014) and retrospectively illuminate the history of the school: hence, Kirzner paid attention to the mechanics of entrepreneurship in Menger (Kirzner 1978) and where Misesian methodology differed from Menger's, one can better scrutinize early Austrian analysis.<sup>3</sup>

Moreover, one cannot deny that the main notions of modern analysis come from the methodology of individualism being applied to social sciences. Weber agreed with Menger on this idea. In a pivotal period, Weberian "ideal-types" (*Idealtypen*) and Mengerian "real-types" (*Realtypen*) emerged to free economics from a so-called "ethical orientation" (*ethische Richtung*) and historicism. Relationships between concepts of private and public spheres in economics were set anew in axiologic neutrality (*Wertfreiheit*) and traits of even the contemporary analysis of Austrian entrepreneurship, like Kirzner's and Rothbard's, go back to these more ancient Austrian fundamentals, even in a new setting such as the United States. Menger's and Mises's views were changed, evidently, by this American trend but it remains indispensable to point to the former so as to better understand part of this later "American-Austrian" shift.

The structure of the paper is as follows: first, we discuss points of disagreement, such as how the notion of ideal-types is, or is not, utilized by Kirzner and Rothbard; how praxeology and *a priori* methodology are appraised in economics, while the "capitalist entrepreneur" is mixed or contrasted with the "alert" entrepreneur (Part 2). In Part 3, we describe elements of convergence within the contemporary Austrian school on some tenets of the theory of human action, the approach of time, uncertainty and speculation as well as the equilibrating role of entrepreneurship in the market process. Lastly, in Part 4, we aim to provide a possible portrait of the Austrian entrepreneur matched to contemporary economic changes, embedded within institutions. We attempt to grasp the "real" entrepreneur in its "essence", so to speak, as an innovator – and more. The "evenly rotating economy" (ERE) is mentioned from Part 1 on, and while we focus on views by Rothbard and Kirzner, we also refer at the end, to the third main character of the Austrian revival of the 1970s and 1980s, Ludwig Lachmann.

## **2. Kirzner and Rothbard: points of divergence on the methodology of studying entrepreneurship**

Individualistic views specific to Austrian economics, since its foundations, were already, one way or another, much in line with original Anglo-Saxon, and even American creeds, regarding for instance, the personal sense of responsibility and factors related to individual agency. In any case, they were more individualistic than their counterparts of German origin. What were first featured as tenets of pure methodological individualism by Carl Menger in Vienna were actually able to find a closer cultural ground in the United States of America. Menger's had provided both an innovative and ground-breaking basis to a pure science of economics that could later prosper in a different setting.

This view however, may sound a little general and biased, since one could also remember how institutionalism was illustrated by the works of American economists Thorstein Veblen and John Commons after it had thrived in Germany, especially in Prussia. Yet the American institutionalist trend was genuine to the US academy, inasmuch as Veblen's style recalls that though the members of the German Historical School and Commons' ideas are far from fighting the individual view on institutions, this general assessment seems to hold.<sup>4</sup> In confronting views of Classical political economy, Austrian economics and so-called "Historicism", views on entrepreneurship found standpoints in the Viennese and American economic traditions less

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<sup>3</sup> This has been much studied in the literature dealing with the Austrian school. Let us refer the reader to (Lordon and Ohana 2008) which probably deserves more attention than it has been given.

<sup>4</sup> For a more detailed approach on this aspect, we can refer the reader to the literature on US institutionalism.

critical regarding how the *homo economicus* should be studied from the individualistic than in any other stream of economic thought (only perhaps French early 19<sup>th</sup> century classical liberals followed individualism similarly with Jean-Baptiste Say).

This is a general depiction, and its genealogy cannot be described here. It needs in turn to be characterized and differentiated. What Austrian thought is regarded as, is as follows: in his original “pure” theory, Menger notably put together<sup>5</sup>: 1) economic agents are described as “real” in the sense of “real- types” (*Realtypen*); 2) economics as a “pure” science deals with “what is general” (along Aristotelian lines that Menger endorsed); 3) a “science” that deals with action which is based on human beings’ private economic activities (“*privatwirtschaftlichen Menschen*”<sup>6</sup>). In many respects, these aspects were accepted and strengthened or refined by Menger’s successors. In other words, Menger anticipated a notion that would henceforth become known as Weberian, the “ideal-types”.<sup>7</sup> Starting from there, three bones of contention surfaced between Rothbard and Kirzner on the background of a “Neo-Austrian” view and we consider them in the following way: the use of ideal-types, the issue of apriorism (where Misesian “praxeology” goes beyond Mengerian science) and the characterization of the entrepreneur as an individual with peculiar individual qualities.

### 2.1. The use of “ideal-types”

Carl Menger and Max Weber shared views such as the use of ideal types, albeit under different denominations. Both considered the following: self-interest is the basis for individual/“micro”-economic behavior, and the theoretical inquiry on it takes into account what may determine such individually self-interested attitudes – to begin with many concerns often regarded as otherwise relevant, such as religious beliefs; the “economic attitude” is, however, more an outcome of these concerns than contradictory to them. Both Menger and Weber stressed how knowledge (respectively ignorance, and including beliefs and available information) and time (respectively the costs of acquiring information as much as is necessary to produce commodities) are part of the issue. Attention paid to individual preferences makes behavior “real”, that is, effective and where it is “typified” by Menger, Weber calls it “ideal”.<sup>8</sup>

In the case of Mises, this eventually came to mean his notion of “evenly rotating economy” (ERE) could be the basis for understanding more profoundly the complexity of socio-economic phenomena. This method (*vs.* that of “pure” and/or “real/ideal” types) must be taken into account when reaching to more recent shores with Mises’s heirs: in order to grasp the complexity of economic phenomena, Rothbard used the device of the ERE rather than the imaginary construction of an “economy of Robinson Crusoe”.<sup>9</sup> The ERE refers to a state of

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<sup>5</sup> We focus only on points relevant for our demonstration regarding entrepreneurship in later works.

<sup>6</sup> Menger and Mises agreed with each other about this notion, or rather Mises held a Mengerian stand.

<sup>7</sup> Menger called them “real” but the “*essential* reality” he meant is called “ideal” in Weber’s terminology.

<sup>8</sup> Later economic sociology, inspired by him, evolved parallel to methodological individualism in economics: in sociology, Weber, both an heir and an opponent to Schmoller provided an elaborate pattern to rebuked “holistic” views. Concerning Menger: his analysis in terms of *Real-typen* (Menger 1985 [1883]) is a point Weber could endorse when stating his famous notion of “ideal-types”, basically upon a similarly conceptual characterization (despite the apparently opposite label). In Menger’s eyes, economics would lose its integrity in two ways:

- either by fully isolating itself from the movement of the other social sciences as the whole body of disciplines was necessary to understand what social phenomena were made of – and economics only described one aspect of that reality;
- or, conversely, by foolishly subjecting itself, without good reason, to another science when economics did not have to do that. In order to display causal relationships between “real-types” (*Realtypen*) empirical reality should not come first. Even though Weber insisted on a science of effective reality (*Wirklichkeitswissenschaft*), theory came first.

<sup>9</sup> Sometimes typical of so-called “neo-classical economics”. See (in French) (Chappé and Crétois 2014) especially our essay on the method of Carl Menger *against* so-called “robinsonades” (Campagnolo 2014).

affairs in which no changes occur: “the same activities tend to be repeated in the same pattern over and over again” (Rothbard 2009 [1962]: 321). One advantage is thus to mimic equilibria while the rotating move implies dynamics.

For Mises (1999 [1949]: 248), “the evenly rotating economy is a fictitious system in which the market prices of all goods and services coincide with the final prices”. This imaginary construction is, of course, never to be encountered in “real” (effective) life, but it functions as a tool to display the workings of economic phenomena so as to stress how changes occur. This state of affairs shows the final equilibrium the economy tends to approach without success. The idea, present in Mises and Rothbard, was popularized by Kirzner as the tendency towards equilibrium to which market processes do tend to find their inner goal.

This tool makes Rothbard and Kirzner converge in following Mises to use the ERE to explain the structure of production and the price mechanism. Yet Kirzner goes one step further and adopts a “typical” approach to stress what concerns the *entrepreneurial* market process. Kirzner thus renews Mises’s methodological approach and resumes use of a distinction between “pure” and “real (effective)” types. He endorses Mises’s definition of pure types (Mises 1999 [1949]: 252) as “catallactic categories”, a methodological tool utilized by Mises to introduce the entrepreneur as him/herself a catallactic category.

For Mises, the “imaginary construction of a pure entrepreneur” helps (Mises 1999 [1949]: 254) to isolate the specificity of the entrepreneurial action from other economic functions. Now, if one may indeed find some references to a pure “*capitalist*” entrepreneur or to a pure rate of interest in Rothbard’s treatise, nothing surfaces of such an imaginary construct as exists in Mises and Kirzner’s writings. Kirzner even went beyond what Mises assessed as he defined his “real” and “pure” types of entrepreneur. Real entrepreneurs are therefore the result of a combination between different economic functions, whereas a “pure” entrepreneur is “a decision-maker whose entire role arises out of his alertness to hitherto unnoticed opportunities” (1973: 39). Indeed it is the status of praxeology as relevant methodology to describe entrepreneurship that is at stake – hence recalling yet going beyond Mengerian and Weberian types.

## 2.2. *Praxeology and the role of a priori in the economics of the entrepreneur*

From their common master Mises, both Rothbard (2009 [1962]) and Kirzner (1960, 2<sup>nd</sup> edition 1976) retained that economics is a branch of praxeology. As worthy successors of Mises, both drew attention to Mises’s contribution to the methodology and understanding of economics and applied these to their own specific topics of interest: thus, Kirzner’s PhD dissertation is a defense and popularization of Mises’s notion of praxeology. Kirzner did not only present Mises’s approach, but he stressed it as superior to grasp the working of a free-market economy over the classical or so-called “neo”classical approach. Rothbard, in his way, stepped up the Misesian campaign in his 1962 treatise *Man, Economy and the State, a treatise on economic principles*. Like Kirzner before him, he named straight fundamentals of human action and praxeology as “the” methodology.

Yet, where economics gets defined as a “science of human action” (in praxeology), both scholars lamented, to different degrees, some lack of attention given by Mises in presenting the “praxeological view of economics” to the detailed workings of the market process. Both Kirzner and Rothbard take Mises’s definition of praxeology as a “theoretical and systematic science” where “statements and propositions are not derived from experience” but are “a priori” (Mises 1999 [1949]: 32). Thereby rejecting mere empiricism or pragmatism, Mises stated that fundamental logical relations of the human mind are *not* subject to verification against one possible interpretation of Popper’s “science demarcating criterion”. Mises stated his methodological *a priori* method was based on an anthropological reasoning:

The fact that man does not have the creative power to imagine categories at variance with the fundamental logical relations and with the principles of causality and teleology enjoins upon us what may be called methodological apriorism (Mises 1999 [1949]: 49).

Kirzner restated this standpoint as follows: so-called “theorems of economics... are to be described as a priori” and they “are derived purely from the knowledge that the human mind possesses the category of action”. Therefore history consists of observing and describing facts whereas economics tries to explain them “by subjecting the observed data to a specific scientific procedure, praxeological reasoning” (1976 [1960]: 180).

Nevertheless, as Caldwell has shown (Caldwell 1984: 363), both Kirzner and Rothbard diverged from Mises when saying that “the fundamental axioms of human action are ‘broadly empirical’ (1976 [1960]: 24–28)”. Moreover, when one reads Rothbard’s *Man, Economy and the state*, no attention whatsoever is paid to the issue of *a priori*. It seems to us it is only in Rothbard’s 1976 article on the “Methodology of Austrian Economics” that this issue is dealt with whereas, as far as Kirzner is concerned, such methodological questions appear as somehow additional to his main concern, since Kirzner is more interested in the logical reasoning and the detailed understanding of market processes.

From there, Kirzner and Rothbard both try to go beyond Misesian views and adapt them to their respective proper concerns: Kirzner derived that economic processes and market process in particular can only be *discovered* – in a sense, economic processes cannot exist *a priori* or, at the very least, they stand *a priori* while awaiting to be discovered. Only then can one consider them to effectively enter reality. What this means for the economic agent, especially the entrepreneur, is that to be good at this “game” is first of all to stay *watchful*, or in Kirzner’s own wording: “*alert*” to seize any opportunity and use it for potential profit.

In the case of Rothbard, the issue is: in any case, *why interfere* with the market process? Its efficiency is at a par with the incentives that make *entrepreneurs* innovate and provide more goods and services at a lower price to many more people than any other system of resource allocation would. This entails more purchase power given to all, *especially* those more in need, that is to say, first of all to those with lesser wealth. This idea seems to go against the image often associated with extreme advocates of free trade, that one tends to relate to the wealthier classes within society, but the argument goes that freedom to undertake economic action (free entrance in production and in trade) actually protects all economic agents individually against cliques that tend to use institutions and the political system in order to obtain privileges that are detrimental to the whole community as well as to their customers.

The point in the Rothbardian approach is that entrepreneurship is *a priori* (in the basic sense of the term) beneficial to all, not only to the entrepreneur himself. This is grounded in *a priori* (this time, in the technical, Misesian sense of the term) understanding of economics as the science of action, in praxeology. This methodological basic tenet is, of course, included in *Man, Economy and the State* where the issue is to ask “why interfere *in any case* in the market process?” Actually, there could be reasons to do so (such as externalities) but Rothbard’s endeavor lies precisely in denying that, in the end, these reasons could ultimately be valid. One needs to see here that entrepreneurship is, in Rothbard’s eyes, the effective actualization of the economic process true to individualism and praxeology. This is where Kirzner and he insisted on different aspects of the entrepreneur.

### 2.3. *The capitalist entrepreneur vs. the alert entrepreneur*

Even if Kirzner and Rothbard share the idea that the character of the entrepreneur is, perhaps, a symptom that agents live in an uncertain environment, which *is favorable to innovation and profit-making opportunities*, these surroundings provide such chance as far, and only as far as when one is watchful and becomes aware of changes that happen. Yet, if both Austrian thinkers share the idea that profit-making is an equilibrating function that is obtained through the market

process so as to get closer to a position of equilibrium, they disagree on the relationship between the essential nature of the entrepreneur in his/her character and what makes him/her the main prop to a capitalist economy, as such.

In chapter 8 of *Man, Economy and the State* (titled “production: entrepreneurship and change”), Rothbard concedes that there exists a diversity of entrepreneurship types. He nevertheless considers the main type as being the “capitalist-entrepreneur” (2009 [1962]: 509–10). The “capitalist-entrepreneur” makes money advances to asset-owners to use in production. Such an entrepreneur is watchful of price discrepancies on the market and speculates that future products may be sold at a more remunerative price. If capitalist entrepreneurs earn large sums of money, their expectations play a major and growing role in the production process. However, nothing protects them from being wrong and experiencing an entrepreneurial loss, whatever the amount of capital invested. Alertness, foresight and entrepreneurial judgment are the *only* conditions of success, and on this last point, Kirzner agrees. Yet, he puts the stress elsewhere than on capitalism.

For Kirzner, the capitalist function and the entrepreneurial function may be taken upon themselves by one and the same person, yet the capitalist function in itself only consists of lending capital to the effective, real *entrepreneur*. In exchange of their loan, capitalists receive interest which is different from the entrepreneurial profit (or loss) which rewards alertness, confirmed expectations and sound judgment. Therefore, the capitalists’ income is certain, whereas entrepreneurial profit is by definition uncertain, and this makes a big difference. Surely Rothbard would disagree, yet he cannot but concede the role of interest in any economy, especially the evenly rotating economy, whose repetition excludes the innovation brought by the entrepreneur, and therefore income related to entrepreneurial action. In a nutshell, Rothbard *assumes* that a capitalist is always an entrepreneur, whereas Kirzner rebukes the idea. Regarding entrepreneurs in this way, Kirzner sees capitalists as not facing uncertainty and innovation as such, but only as speculating, while assuming there may be potential risk; in other words, if there was the same profit to reap without the risk, they would go for it, while the entrepreneur’s alertness is substantially to seek and exploit uncertainty. The difference between risk and uncertainty is clearly borrowed from Mises, while it naturally echoes the notion put forth by Knight in *Risk, Uncertainty, and Profit* (1921), which one may possibly regard as a companion to the “American” understanding of Austrian viewpoints.<sup>10</sup>

According to Kirzner, profit-opportunity of course requires investment but “analytically the purely entrepreneurial role does not overlap that of the capitalist, even though, in a world in which almost all production processes are more or less time-consuming, entrepreneurial profit opportunities typically require capital” (Kirzner 1973: 49). With this distinction, Kirzner gets closer to Mises than Rothbard does, since for Mises, entrepreneurs and capitalists differ inasmuch as the essential nature of their income differs:

In the context of economic theory the meaning of the terms concerned is this: Entrepreneur means acting man in regard to the changes occurring in the data of the market. 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. (Mises 1999 [1949]: 255).

All in all, how Kirzner and Rothbard diverge is where they read the Austrian tradition differently, in particular the Misesian theory of action set anew in a US context and, in turn, this divergence implies some essential facets of entrepreneurship, three of which are mentioned above. Now, the basics they agreed upon should remain salient in that perspective. We find these to remain more significant than disagreement points and shall examine *how* from here on.

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<sup>10</sup> For an analysis of similarities between the ideas of Frank Knight and some members of the Austrian school of economics on risk and uncertainty: see in a vast body of literature (Klein 2010) and (Chassagnon and Vivel 2013).



### 3. How Rothbard and Kirzner converge on entrepreneurship remains crucial

The key to the matter of a theory of entrepreneurship is, both in Kirzner's and Rothbard's eyes, action theory. That being so, let one remember that there can be action neither without some active individual, the agent – nor without some material ground, upon which action can be taken. Rothbard, Kirzner and those whom they see as probable opponents, those who would support exclusively *interpretative* views of action (more on them in part 4 below), are paradoxically often in line with respect to what *action* means, and this, starting from a Misesian ground, namely the “theory of human action”, or praxeology as already mentioned in the previous section.

In this section, we shall discuss some of these commonalities as potentially pointing towards a trend which may be labelled “institutional interactionism” (more in part 4 below). In order to sketch its meaning from an Austrian starting point, it is first and foremost necessary to discuss some aspects of action inasmuch as it is “human” in the sense put forth by Mises, yet more generally as well, that is both being intentionally motivated and logically planned – although not necessarily successful and requiring subsequent revisions.

#### 3.1. Theory of human action

According to the Misesian tradition (or “praxeological” paradigm) human action strives to transform the environment in order to accomplish a certain purpose. As Mises (1999 [1949]: 13) put it: “Action means the employment of means for the attainment of ends”. The process that then takes place is one of deep transformation of certain circumstances from beginning to end. What may be reached is not known ahead of time, leaving room for innovation and individual action.

Does Rothbard merely repeat Mises's theory of human action? Yes, to a large extent. His first magnum opus *Man, Economy and the state* (2009 [1962]) was explicitly written to extend and popularize Mises's theory of human action. The key idea of this theory is that action attempts to make a plan, to decide: “action requires an image of a desired end and “technological ideas” or plans on how to arrive at this end” (Rothbard 2009 [1962]: 3).

Kirzner says nothing more than the mere fact of economizing:

Mises's *homo agens*... is endowed not only with the propensity to pursue goals efficiently, once ends and means are clearly identified, but also with the drive and alertness needed to identify which ends to strive for and which means are available. (Kirzner 1973: 36).

Human action tries to evaluate ends and to prioritize them in order of preference. Consequently, action implies *interpretation*. It is deeply subjective, and as such, it requires that a process of understanding takes place. The fact that praxeology follows *a priori* rules of deduction only allows the description of the logical analysis of this very process, yet neither entails nor encroaches on this. The basic line is that individual action is “an attempt to grasp opportunities that the human agent, peering through a fog of uncertainty, judges to be available” (Kirzner 1985: 82).

Moreover, through Rothbard's view this time, since action must be undertaken in order to better one's situation, in other words, to reach more satisfaction than was previously granted, “there must always be room for improvement in his value scale; otherwise all of man's wants would be perfectly satisfied, and action would disappear” (Rothbard 2009 [1962]: 71).

Here, both aspects of subjectivism and *a priori* methodology complement each other: the underlying concept of science is that human action can be described as both fundamentally innovative and logical. All that is rational is or can be effective in human action: the action, the

agent as a free individual and even the material matter upon which action is taken are in line with both a rational “objective” explanation and a subjective self-explanation.<sup>11</sup>

The latter, “subjective input”, can be investigated by asking entrepreneurs what they themselves think of their own activity: while not being objective, their views are not devoid of interest for the examiner; and if they are not devoid either of strategy or, conversely, scruples in telling, they can still be used to analyze the reality of the objective process, for instance, in investing. One simple reason is that, in the end, investment decisions, as well as foresight in an uncertain environment, do belong to the agent. Now, economists as well as sociologists (gathered around the agents for field-studies of self-representation of action, even simply for polls) are all concerned: theory of action also involves some theory of knowledge of the theory of action. This reflexive attitude and concern for subjectivism that finally implies concern for self-understanding of the agent as a self and within the theory of knowledge is (like it or not, depending on your epistemological stand) a fundamental trait of Austrian economics. Rothbard does take these aspects into account, even when he opposed to what he horrendously referred to as a “hermeneutics invasion” (Campagnolo 2006: 95–103).

### 3.2. Time, uncertainty and speculation

Since Menger and through the generations of Austrian economists, another common thread runs: time, and the time consuming aspect of any type of activity gets stressed within purposeful human action. Well-known best-seller *Economics of Time and Ignorance* succeeded in reminding us of that idea, at a time when it had somehow been forgotten within the mainstream of economics, blind to individual action. Nonetheless, Austrian thinkers always knew, and paid attention to the role of these factors; Kirzner and Rothbard in particular.

As action takes place in time, the result of human action is uncertain. “If man knew future events completely, he would never act, since no act of his could change the situation” (Rothbard 2009 [1962]: 7). Uncertainty surrounds the action because human acts of choice are unpredictable and knowledge of natural phenomena is insufficient. So, in order to act, individuals have to make a judgment on the course of future events, that is to say, to speculate. Each action presupposes interpretation:

To be human is not merely to calculate correctly within an already perceived environment; it is to be able, by peering into a murky present and an even murkier future, to obtain a reasonably useful grasp of one’s true situation, (Kirzner 1985: 83).

Would the economist venture into a realm that runs largely over the concerns of science in questioning such issues as what it means “to be human”? Once the question is asked, it is a matter of accepting whether a reflexive attitude is allowed in science *per se* – or not. Now, if it were not so, then how could the economist even merely *describe* facts? The truth is that it is adequate to put economics and philosophy together.<sup>12</sup> The careful study and the minute analysis of economic phenomena both always imply that researchers make choices, at methodological or theoretical levels. To grasp these with a reflective attitude is also, in a way, a part of science. Hence, economics, both in its theoretical and applied parts, is intrinsically concerned with philosophy. Economic philosophy takes notice of this fact and questions the working practice

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<sup>11</sup> One may remember much earlier methodological disputes at the origins of the Austrian school, such as the use of notions *erklären* (to explain) vs. *verstehen* (to understand) by neo-Kantian German Baden-School philosopher Heinrich Rickert. See, for instance, the relationship between Menger, Weber and how to grasp both aspects and ‘objective comprehension’ (Campagnolo 2010: 183). On the notion of the self and self-explanation/self-realization in Austrian economics, see (Campagnolo, forthcoming).

<sup>12</sup> Moreover, this connection is today widely recognized within the profession. See journals such as *Economics and Philosophy*, edited at London School of Economics, and the *Review of Economic Philosophy*, edited in English and in French at reference philosophy publishing house, Vrin – Sorbonne, in Paris.

of economists in this light. Austrian thinkers illustrate that as they (all of whom in some sense, even though not in all aspects of their works) rejected the attitude that sometimes tends to regard economics and philosophy as contradictory endeavors. Such a caricature is ridiculed when it reduces economics only to its (legitimate) part of systematic mathematical formulas or considers philosophy as a purely “fanciful” literary exercise.

In other words, speculation – in all senses of the word, pertains to human action. Speculation means the practice of opportunistic foresight to earn a profit, and also the intellectual speculation that brings together different aspects of economic life – it is not by coincidence that the word used is the same in both cases.

Now, this is no more than what Mises taught to his disciples when talking about the “acting man”. One should keep in mind, the Mengerian terminology; “*wirtschaftender – oder privatwirtschaftender Mensch*”; this acting man, and its doctrine the “*Privatwirtschaftslehre*” (in the German original):

Action necessarily always aims at future and therefore uncertain conditions and thus is always speculation. The acting man looks, as it were, with the eyes of a historian into the future. (Mises 1999 [1949]: 58).

The *Privatwirtschaftslehre* (the doctrine of privately acting economics) is the science of the principles according to which (in the social conditions one presently lives) private individuals can orientate their own economic action in the most relevant way (to their eyes in taking into account actual circumstances) (Menger 1985/1883, Appendix IV “Upon the Terminology and Classification of Sciences”, our revised translation).

Each and every choice made by the agent reflects the agent’s imagination, knowledge, ignorance, expectations, and subjective perception of his environment. Each and every choice made by the economist in studying facts related to the agent’s behavior reflects the theories and methodology that is being used to grasp facts and offer a logical account of human action. The latter is therefore always subjective and thus only a “comprehensive (*verstehende*)” methodology can fully render a proper image of what there is to understand. It may be used as a supplement to other more mainstream methods, but it has to be used so as to get a fully-fledged picture of the economic phenomena at stake – particularly in the case of that especially active agent in which the entrepreneur consists.

### 3.3. *The role of entrepreneurship in the market process*

So, the entrepreneur appears as a potential double behind *each and every* expression of human action.

First definitions of Austrian entrepreneurs were Mengerian entrepreneurs. Menger saw them as “foreseers who always look further up the ladder of the goods necessary to produce some other goods, and that very criterion may serve to distinguish entrepreneurs, who are in charge of collecting information, making economic calculations, displaying willpower to bring higher goods into the production process and supervising production, from capitalists, who are defined through ownership of capital goods.” (Campagnolo and Vivel 2014: 53).

Kirzner’s views must be studied from his understanding of Mengerian entrepreneurship (Kirzner 1978) and this study filled a void in the literature that disentangled views by Menger and those of his disciple Eugen von Böhm-Bawerk and related Austrians like Josef Schumpeter while slightly correcting Kirzner’s analysis (Campagnolo and Vivel 2012 and 2014). As this paper concluded: “anyhow, observing one’s environment and the wish to bring things to reality so as to satisfy needs, hence the need to gather forces, resources, exploit them and take advantage of knowledge (situational, technical, economic etc.) is Mengerian entrepreneurship” finally discussing this entrepreneur as an anthropological type (*ibid.*: 67–74).

Now, the wider the extension of the anthropological traits of the entrepreneur, the bigger the issue, so to speak: in Rothbard's *Man, Economy and the State*, one definition of entrepreneurship is given as follows:

This necessity of guessing the course of the relevant conditions and their possible change during the forthcoming action is called the act of entrepreneurship. Thus, to some extent at least, every man is an entrepreneur (2009 [1962]: 64).

Here, Rothbard seemed almost to discard any specificity to entrepreneurship and the entrepreneur. In this perspective, the entrepreneur can be everywhere and anywhere. The idea that the entrepreneur must be behind each and every economic action is present as well in Kirzner when he said: "anyone is a potential entrepreneur" (1973: 16).

The entrepreneur is alert to hitherto unnoticed profit opportunities. He reveals information about price differences, for example, and in so doing he helps to approach market equilibrium, as entrepreneurship reduces ignorance and "*brings into mutual adjustment those discordant elements which resulted from prior market ignorance*" by discovering opportunities (1973: 73). Market process consists of a series of steps correcting earlier ignorance, an adjustments process where the plans of market participants are gradually brought into greater and greater consistency with one another. Kirzner demonstrates that the entrepreneurial role in the market process results in an equilibrium tendency.<sup>13</sup>

As we find the same idea in Rothbard's treatise, convergence is clear on the point that the entrepreneur, by speculative action, contributes to bringing the economy towards equilibrium: "correct speculation quickens the movement toward equilibrium, and erroneous speculation tends to correct itself, the activity of these speculators tends to hasten the arrival of an equilibrium position" (2009 [1962]: 158). Is it possible from there to characterize a portrait of the contemporary Austrian entrepreneur?

#### **4. A portrait of the Austrian entrepreneur aligned to contemporary economic changes**

Those who support hermeneutical/interpretative views of human action are paradoxically often in line with Kirzner and Rothbard with respect to what action *means*. Here, another author comes to the fore: Ludwig Lachmann. To those acquainted with Austrian economics, it will come as no surprise that the three names here are both associated and confronted.

The reason for the confrontation however, is not the usual description of the field of contemporary Austrian economics (Vaughn 1994), but the way they respectively stand with regard to action and its interpretation: at each step of the inquiry, one notion calls upon another. Voluntary will is put into action, and action in its turn is guided by human willpower upon the horizon of one's wishes, preferences and desires for the most profitable outcome. This depends directly on a subjective approach and while the agent is acting in following a self-representation of his/her preferences, desires, goals, various interpretations are possible. These aspects are shown thorough resemblances with a portrait of the Austrian entrepreneur that one may put forth. Let us attempt to sketch it here.

##### *4.1. Typology of the entrepreneur: a synthesis*

According to the foregoing, at first glance, the entrepreneur may first appear as an imaginary construction, a function. As Klein puts it:

"The classical contributions to the economic theory of entrepreneurship from Schumpeter, Knight, Mises, Kirzner and others, model entrepreneurship as a function, activity or process, not an

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<sup>13</sup> This highly-debated idea between the Austrian economists will not be developed here. For more information, the reader may refer themselves to Boettke *et al.* (1994), Vaughn (1992, 1994), or White (1976).

employment or market structure... In each case, these functional concepts of entrepreneurship are largely independent of occupational and structural concepts.” (Klein 2010: 96)

What distinguishes the Austrian school is its functional approach to entrepreneurship.<sup>14</sup> The functional approach based on judgment or alertness has to be differentiated from occupational approach where the individual entrepreneur is the unit of analysis and the focus on the personal characteristics of entrepreneurs. A functional approach is also different from structural approach which treats the firm or industry as the unit of analysis and focuses on market structure. For the Austrian approach and the functional approach in general, the entrepreneur may seem *disembodied*.

However, upon closer inspection, there is a wealth of notions packed into the character of the entrepreneur, or rather there may be varied types of “the” entrepreneur. In market processes, one encounters different kinds of entrepreneurs. For instance, firstly, the arbitrageur entrepreneur is borrowed from Mises. The arbitrage action of the entrepreneur, who is alert to price discrepancies (Rothbard) or to opportunities hitherto unnoticed (Kirzner), brings the market process closer to the equilibrium at each step of action that is taken. Naturally, other factors tend to create disequilibrium: thus a permanent state of uncertainty prevails.

Even more than the character of the entrepreneur as an arbitrageur, Rothbard and Kirzner refer to and borrow the character of the speculator from the views put forth by Mises. The entrepreneur *guesses* what consumers want, what therefore the future could be if he/she sets things in motion – that is as a result of action. The entrepreneur realizes arbitrage across time and various places, judges the circumstances on the market, sets a plan of action and implements every action consistent with that view. Two kinds of entrepreneurs may thus appear: successful entrepreneurs, who are called “promoters” by Mises and, conversely and inevitably, the unsuccessful ones. Economic life comes at this price.

Besides the pure fiction of the entrepreneur, the “real” entrepreneur exists only as a combination of different economic functions. Among these, let us quote diverse combinations that Kirzner tried to analyze in order to show how specific the pure entrepreneurial function remains: there are the “entrepreneur-manager”, the “entrepreneur-innovator”, the “entrepreneur-capitalist” and the “entrepreneur-leader”. Each combination is also, in a diachronic and historic manner (see Campagnolo and Vivel 2011 and 2012) symptomatic of a period of capitalism as well as it may, in a synchronic way, be encountered in the course of market process.

Kirzner criticized the way economists may separate both studies: each historical combination should be discussed while dealing with the role of entrepreneurship for the development of market processes. The type he discussed most is the “entrepreneur-innovator”. A large body of literature exists on the topic as well as the link between the Schumpeterian and the Kirznerian entrepreneurs. We shall not be entering into this discussion here but we notice that the innovating component of the entrepreneur pertains to the “really” existing entrepreneur even more than a “pure” type of entrepreneur. In a word: innovators make history.

We wish to emphasize here another specific type of entrepreneurship function, often forgotten by economists (though much less in business administration): the *publicity* function of the entrepreneur. For Kirzner, the entrepreneur must make consumers and all market participants aware that price discrepancies exist. The entrepreneur has to market products, endeavor to push up sales, and to that effect, make these public and advertise them. As a consequence, the entrepreneur is also (or has to become) a marketing buff or advertising publicist: he has to convince other market participants to follow his plan to lend him/her money

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<sup>14</sup> For a more detailed presentation of the difference between occupational, structural and functional approaches of entrepreneurship, see Klein (2010: 94–99).

and/or to buy his/her products. Persuasion is specific of the pure entrepreneur and it can be encountered in various economic functions, not only those properly dedicated to such marketing or publicity, but in capitalists, statesmen and leaders of any type in general.<sup>15</sup>

Lachmann takes a step further in the typology of the entrepreneur he suggested in turn, always within the tradition originated in Menger and Mises, and Weber too for that matter. Lachmann (1986: 125–127) introduces three types of entrepreneurs. Each type reflects a different type of interaction: the “*arbitrageur*”, the innovator and the speculator. Note that, although these three types repeat the list presented by Kirzner (1984: 84–86), they are, nevertheless, not identical: many differences concern their definitions. In this perspective, Lachmann does not link the entrepreneur to the ownership of capital assets, he only focuses on the judgmental decision making aspect of entrepreneurship.<sup>16</sup>

The arbitrageur<sup>17</sup> tries to exploit price discrepancies. In Lachmann’s view, his action consists of stabilizing in statics more than in dynamics. The innovator takes advantage of inter-temporal price discrepancies produced by his/her own action. Lastly, the speculator, takes advantage of price discrepancies on which he/she has no influence. Lachmann then analyzes different kinds of speculators.<sup>18</sup>

Speculators and innovators decide on the future on the basis of their expectations and judgment, whereas the arbitrageur grounds their decisions on the observation of past events. The arbitrage function thereby consists of discovering past errors and correcting them. At the opposite end of the spectrum, being an innovator is being creative and changing the structure of production. Innovators destabilize structures. Arbitrageurs only react to novelty introduced by innovators. They are essentially imitators, but they actually provoke changes and contribute to more stable situation.

Lachmann did not only provide a typology of entrepreneurs. He analyzed their interaction. This interaction between innovators and speculators is far more complex and the interactionist paradigm that is introduced here contrasts partly with the stress on straight individualism in Rothbard’s works and even by Kirzner.

Innovators and speculators may agree or disagree, yet in any case, speculators help innovators as they contribute to adjusting stocks. Speculators may gamble on the rise of the price of raw materials, artificially expanding the price of the input needed by innovators. All in all, each function cannot be effective without the other and the various types are displayed upon a wide spectrum where all is a matter of how these types combine in each and every effective individual agent, particularly in each and every effective individual entrepreneur.

#### 4.2. *Entrepreneurship and institutions*

The contemporary contribution of Austrian economics to entrepreneurship owes a lot to the recourse of the distinction between the real types just discussed. Actually, it is a recurrent theme

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<sup>15</sup> At this point, one should introduce and discuss studies on leadership. There is an immense body of literature dedicated to it – as far as the typology of such leaders in the original Austrian current of thought is concerned, including Friedrich von Wieser’s *Gesetz der Macht*, see Campagnolo and Vivel (2012).

<sup>16</sup> Here lies the difference between Klein’s interpretation of Austrian entrepreneurship theory and ours. For Klein, entrepreneurial judgment and ownership are linked. Entrepreneurial judgement leads to a combination of capital goods; this can be seen as the roots of entrepreneurship. Thus, the capitalist entrepreneur *as a capitalist* is the driving force of the market economy and focus should be put on financial markets: Klein consequently thinks that the entrepreneurial judgment is essentially related to owning capital (such assets are naturally not only material). Klein thus attempts to build a theory of the firm, which is not the goal of the authors here. For Lachmann, the entrepreneur is not necessarily the owner and entrepreneurship refers only to judgmental decision making. Klein goes that far. Nevertheless, both Lachmann and Klein (2010) stress the importance of financial markets for a better comprehensive understanding of entrepreneurship.

<sup>17</sup> Or “arbitrager”. Let us borrow this spelling for general use and keep “arbitrageur” for the view by Lachmann.

<sup>18</sup> It seems that Lachmann followed Kaldor’s intuition in this, but we shall not be exploring this path further here.

of Austrian economics, and from Menger, Wieser and, related, Schumpeter, it appears as a relevant trait to characterize the economics of human action applied to human action illustrated by entrepreneurs. If a “pure” representation entrepreneur may seem disembodied, actual entrepreneurs are many in reality. Mises wrote on this, the following:

What economics establishes with regard to entrepreneurs is rigidly valid for all members of the class without any regard to temporal and geographical conditions and to the various branches of business. What economic history establishes for its ideal types can differ according to the particular circumstances of various ages, countries, branches of business, and many other conditions. (Mises 1999 [1949]: 61).

Austrian economics or “praxeology”, (Mises’s terminology, which subsequently continued to be utilized by Rothbard and Kirzner), leaves room to have descriptive economics and historical queries wherein it is possible to use the concept of the pure entrepreneur and possibly draw portraits of the “real” entrepreneur and its representatives as they appear in the course of the market process and the economy in general. Moreover, and again according to Mises:

It is a task for economic history and descriptive economics to establish what institutional barriers hinder the execution of transactions which must result in the equalization of prices (Mises 1999 [1949]: 327).

In remaining the most individualistic of the three authors we focus on, Rothbard did not really develop the issue of the role of institutions for the development of entrepreneurship. Yet *Man, state and the economy* is precisely about that issue: why and how institutions get introduced as a third (and often most nefarious) part in two-sided contracts. This is why, quite the reverse, one may easily say that Rothbard stands *against* each and every institution that would hinder contracting – except, precisely, the type of institutions that serve in protecting the expression of unaltered free will.

There are not so many authors that push the matter so far since each and every action by the state (for whatever reason undertaken) may be criticized as such. This libertarian stand can as a result, be used as a bench-mark for other positions: one may set the latter against this former background to provide a measure of “radicalism”. This is why Rothbard can be labelled as “extremist”, which he overtly self-proclaimed (see Campagnolo 2006). This even points to a kind of anarchy since governmental coercion is said to be wrong in any case, especially through taxes, which are always seen in this perspective of feeding a state apparatus that necessarily slows down what the course of economy would otherwise be.

Let us not make a mistake here: if not Lachmann, then at least Kirzner does indeed agree that entrepreneurship would be at its best if governmental action did not hamper the course of the market process, which is why we’ve chosen to stress points of convergence after reminding the reader of their generally better known differences.

We shall end this presentation with the following institutional matters: Kirzner and Rothbard both criticize monopolies when created by state intervention. They do not reject the idea of a monopoly as long as it results from the market process itself, and moreover, they would recognize it as an inevitable temporary consequence of the process of competition. What they vehemently reject are monopolies that are exogenously created by any kind of state regulation: “the State produces nothing; it can only confiscate the production of others” (Rothbard 2009 [1962]: 1314).

The main reason for a stand that is definitely at odds with much of the economics profession is that the state is regarded as fundamentally unable to produce any kind of safety against uncertainty, since only the entrepreneur has the foresight to make future structures emerge. Investigating the orthodox concept of monopoly and the theory of monopolistic competition of Chamberlin and Robinson in his 1973’s treatise, Kirzner (p. 103 et seq.) denounces governmental intervention to restrict the access to the needed resources for entrepreneurs. Two

kinds of monopolies are distinguished: a monopoly where the control of input blocks competition and one where the other entrepreneurs are free to enter.

## 6. Conclusion

The character of the entrepreneur comes as a handy device to Kirzner and Rothbard in order to discuss economic phenomena with the representatives of mainstream economics. For instance, the entrepreneur is the “first to understand that there is a discrepancy between what is done and what could be done” as Mises stated (1999 [1949]: 333). Even if both his heirs disagree on the use of some methodological tools to accomplish the idea in real science (see part 2), they realize an amazing feat in bringing Austrian economics closer to the equilibrium approach.

The rather radical view that surfaces in these contemporary Austrian thinkers against all kinds of premeditated institutions is nevertheless somehow anchored in warnings that Menger made against what he called “pragmatic institutions”.<sup>19</sup> Mises, Hayek and many other Austrians shared in this view.

The specificity here as to the entrepreneur, is the foresight with which he/she may bring new economic life, all by individual endeavors if these are equally permitted, while the state can only guarantee the security of some at the expense of others (for instance, through properly called “social security” nets). Not all Austrians are as radical as the authors we studied here, but for them, such unequal treatment should definitely be rejected: only freedom and security acting exclusively against violent aggression are sure ways to help entrepreneurship to develop.

Our inquiry concludes by linking this rather radical stand with views on entrepreneurship and institutions in stressing how Mises’s heirs appreciated the role of institutions for the development of their notion of entrepreneurship. Once again this may serve as a notional benchmark. A proper “toolbox” would require further analysis on the relationship between Austrian and institutionalist paradigms applied to the entrepreneur. Yet, one can understand that a hint is given when thinking that institutionalism, old and new, pervaded Austrian thought, or at least disputes wherein Austrian economics played a role.

To summarize: within a historical perspective, the question is whether a contemporary portrait of the entrepreneur would finally meet characteristics of earlier Austrian views that existed originally, especially by Menger in his fight against German Historicists, or with Weber *de facto* putting to the fore a synthesis in such older debates. The key to understanding why this looks like a historical loop (or *detour*) and also why the issue surfaces now, is that much analysis of the character of the entrepreneur (not the theory of the firm but of this proper character) was left aside by mainstream economics during most of the 20<sup>th</sup> century. Blatant exceptions, as in the case of Schumpeter, were clearly influenced by Austrian origins, so supporting this, our point of view.

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<sup>19</sup> See Menger 1883, Book III: Menger had to do so due to the exclusive dominance of the historicist view in his times.



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### **Abstract**

This paper is the last part of a trilogy on the theory and history of entrepreneurship in Austrian school of economics. The triptych ends with contemporary members by comparing Israel Kirzner and Murray Rothbard. The migration of the Austrian school induced a new assessment of Austrian traits in a new setting. While we do not focus on the history of the Austrian school in America as such, we will stress how Kirzner focused his view of entrepreneurship on the concepts of alertness, discovery by opportunity and the equilibrating action of the entrepreneur – while Rothbard's contribution was more ideologically engaged.

### **Keywords**

Austrian School of Economics, Entrepreneurship, Institutions, Kirzner (Israel), Methodology, Rothbard (Murray).