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Chapter 4

Critique of Mises on Entrepreneurship

A way to describe the procedure of economics that is particularly useful for the purpose of this book is to focus on the concept of the data. Mises distinguishes between the distinctly human actor and the *data* as follows:

> Praxeology deals with human action as such in a general and universal way. It deals neither with the particular conditions of the environment in which man acts nor with the concrete content of the valuations which direct his actions. For praxeology data are 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 aiming at. These data, although permanent in their structure and strictly determined by the laws controlling the order of the universe, are perpetually fluctuating and varying; they change from instant to instant (Mises 1966: 646).[1]

We see here that Mises divides the character of the actor into two parts. First, there is the general category of action. Then, there is the data, which includes a particular actor's or actors' (1) specific desires and value judgments and (2) specific theories, doctrines, and ideologies that develop in conjunction with those desires and value judgments. Finally,

[1]In a footnote to this passage, Mises refers the reader to book by Richard Strigl.

there are the "particular conditions of the environment," which presumably refers to the material world.

An interesting aspect of this statement is the absence of any reference, either direct or indirect, to the conditions imposed on some people by the presence and actions of other people. Are such conditions part of the data? Are they part of the environment? Or something in between? A key to understanding the answer Mises might have given is found in his discussion of uncertainty. That human beings face uncertainty is itself certain, Mises asserts. Thus, he maintains that uncertainty is a property of the category of action. In his examples, he refers to an actor's uncertainty about his environment but most importantly about the other actors. He points out that one human being can never be certain about the actions of other human beings. For this reason, every action is a speculation.

> In the real world acting man is faced with the fact that there are fellow men acting on their own behalf as he himself acts. The necessity to adjust his actions to other people's actions makes him a speculator for whom success and failure depend on his greater or lesser ability to understand [in the sense of verstehen] the future. Every action is speculation. There is in the course of human events no stability and consequently no safety (*ibid*.: 113).

The procedure used to speculate is the understanding (verstehen) (*ibid*.: 118).

While this tells us about the actor, it does not tell us about the distinction between praxeology and economics. Mises writes that the properties of the category of action are a priori; he does not tell us about the properties associated with interaction. Are appraisement, undertaking, and uncertainty-bearing a priori? How about competition, consumer sovereignty, and the selection of the factors of production? From the standpoint of the actor, an act of competition in relation to other actors requires the use of the understanding. The actor tries to predict how the competitor will act or react. But must the economist use understanding to determine that competition is a characteristic of the market economy? Mises does not provide a clue, at least so far as the author can tell.

We do not have to answer this question, however, to realize that the idea that individuals under the conditions of the market economy compete is less general than the idea that individuals under all conditions act. Nor do we have to answer it to realize that if we aim to describe economic interaction under the conditions of the market economy, we must build images of competition, beginning with the most general images, in which the particular content of peoples' valuations, theories and doctrines is not

relevant. So perhaps the reason why Mises does not answer the question is that it is not relevant to getting on with the task of economic theory.

This book proceeds by building images of action on the basis of the most general assumptions about action (praxeology) to building images based on the less general assumptions. Whether we wish to say that these less general assumptions are praxeological or part of praxeology or whether we wish to relegate them to economics is not important so long as in making the transition, we begin by describing action under the specific conditions that we derive from the definition of the market economy. To see how our work up to this stage conforms to this blueprint, let us briefly review it. We defined entrepreneurship as the manifestation of the general properties of the category of action in acts that entail the use of factors of production to produce goods that satisfy consumer wants under the conditions of the market economy -- use of money, specialization, private property rights, and free enterprise. By means of a contrast we identified the personal properties of entrepreneurship: appraisement, undertaking, and bearing uncertainty. Then, making less general assumptions about the data, we identified various general characteristics of entrepreneurial interaction -- transacting; the employment compact; competition; consumer sovereignty; taking advantage of others errors; the collaborative monopoly and monopsony; actions relating to external effects; and the selection of factors and of individuals for the ranks of the employer-producer-seller. Our next steps are to build images of entrepreneur economies and to give examples of entrepreneurship. These steps are necessary to deal with interventionist arguments, which are based on even more specific assumptions about the data.

Our step-by-step approach has been based squarely on Mises's broad and general statements about praxeology and the procedure of economics. A major difference, however, is our systematic treatment of the entrepreneur concept. Because of this, it is incumbent on us to provide an assessment of Mises on this subject. The aim of this chapter is to do this. The chapter begins in part 1 by presenting Mises's broad and general statements about the relationship between praxeology and the procedure of economics. Part 2 describes two concepts of the entrepreneur that Mises used. Part 3 presents the critique. Part 4 discusses the relationship Mises seemed to identify between promoters and progress. Part 5 ends with a discussion of the ultimate source of profit.

1. PRAXEOLOGY AND THE PROCEDURE OF ECONOMICS

Mises writes the following about the procedure of economics.

> All the concepts and theorems of praxeology are implied in the category of human action. The first task is to extract and to deduce them, to expound their implications and to define the universal conditions of acting as such. Having shown what conditions are required by any action, one must go further and define -- of course, in a categorial and formal sense -- the less general conditions required for special modes of acting (*ibid*.: 64).

He goes on to state the importance of studying action under the realistic conditions and the perspective taken by the praxeologist in making his studies.:

> the end of science is to know reality...Therefore praxeology restricts its inquiries to the study of acting under those conditions and presuppositions which are given in reality. It studies acting under unrealized and unrealizable conditions only from two points of view. It deals with states of affairs which, although not real in the present and past world, could possibly become real at some future date. And it examines unreal and unrealizable conditions if such an inquiry is needed for a satisfactory grasp of what is going on under the conditions present in reality (*ibid*.: 65).

His discussion here pertains not only to praxeology but also to its branches, including economics. This becomes evident when he continues his reasoning by saying that "this reference to experience does not impair the aprioristic character of praxeology and economics. Experience merely directs our curiosity toward certain problems and diverts it from other problems" (*ibid*.). Later he makes a point of distinguishing the procedure of economics from that of logic and mathematics.

> Economics does not follow the procedure of logic and mathematics. It does not present an integrated system of pure aprioristic ratiocination severed from any reference to reality. In introducing assumptions into its reasoning, it satisfies itself that the treatment of the assumptions concerned can render useful services for the comprehension of reality. It does not strictly separate in its treatises and monographs pure science from the application of its theorems to the solution of concrete historical and political problems. It adopts for the organized presentation of its results a form in which aprioristic theory and the interpretation of historical phenomena are intertwined (*ibid*.: 66).

After describing some criticisms of this method, Mises reiterates it.

> 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. With regard to the results thus obtained only two attitudes are possible; either one can unmask logical errors in the chain of the deductions which produced these results, or one must acknowledge their correctness and validity (*ibid*.: 67).

Finally, he writes that the "strength" of economic reasoning comes from its being anchored by praxeology.

> Praxeology -- and consequently economics too -- is a deductive system. It draws its strength from the starting point of its deductions, from the category of action. No economic theorem can be considered sound that is not solidly fastened upon this foundation by an irrefutable chain of reasoning. A statement proclaimed without such a connection is arbitrary and floats in midair. It is impossible to deal with a special segment of economics if one does not encase it in a complete system of action (*ibid*.: 68).

The fundamental premise of this book is that in order to maintain this anchor, it is necessary to follow a specific procedure, the cornerstone of which is the concept of the praxeological entrepreneur. We described this procedurne in Chapter 2. Mises did not follow it, however. The result, we shall argue, was a treatment of entrepreneurship that is both less praxeological than possible and misleading.

2. MISES'S TWO CONCEPTS OF THE ENTREPRENEUR

In *Human Action*, Mises used two different concepts of the entrepreneur. We discuss each in turn.

The Functional Entrepreneur

Mises based his first definition of the entrepreneur on the idea that entrepreneurship stands in contrast to other economic functions. The following lengthy quotation illustrates this usage.

> Economics, in speaking of entrepreneurs, has in view not men, but a definite function. This function is not the particular feature of a special group or class of men; it is inherent in every action and burdens every actor. In embodying this function in an imaginary figure, we resort to a methodological makeshift. The term entrepreneur as used by catallactic theory means: acting man exclusively seen from the aspect of the uncertainty inherent in every action. In using this term we must never forget that every action is embedded in the flux of time and therefore involves a speculation. The capitalists, landowners, and the laborers are by necessity speculators. So is the consumer in providing for anticipated future needs (Mises 1966: 252-3).

> 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 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 and 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*.: 254)

Mises did not assign a distinct name to this concept of the entrepreneur. It will be useful to do so here. We call it the *functional entrepreneur*. The importance of the concept to Mises is evident from his statement that economics, in 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).

The Promoter

Having defined what I have labeled the functional entrepreneur, Mises went on to point out that the term "entrepreneur" can be used in a second sense, which stresses individual differences and the interaction among individuals. It is again worth quoting him at length.

> Economics, however, always did and still does use the term "entrepreneur" in a sense other than that attached to it in the imaginary construction of functional distribution. It also calls entrepreneurs those 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. This notion is narrower than the concept of the entrepreneur as used in the construction of the functional distribution; it does not include many instances which the latter includes. It is awkward that the same term should be used to signify two different notions. It would have been more expedient to employ another term for this second notion -- for instance, the term "promoter."... [T]he promoter concept refers to 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. The inequality of men, which is due to differences both in their inborn qualities and in the vicissitudes of their lives, manifests itself in this way too. There are in the market pacemakers and others who only imitate the procedures of their more agile fellow citizens. The phenomenon of leadership is no less real on the market than in any other branch of human activities. The 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*.: 254-5, italics added).[2]

In this passage, Mises says that the concept of the promoter refers to differences among individuals. Promoters are more venturesome and quicker to notice and react to expected changes in the market data than their non-promoting or less-promoting counterparts. The difference consists of (1) the psychological or physiological dispositions to take chances in business and (2) the ability to appraise factors in a timely manner. Mises typically used the promoter concept to describe market competition. He maintained that if there were no changes in the other data, competition among promoters would lead to "final prices," such as are represented by the ERE (discussed below).[3]

Although Mises seems to have preferred the first definition, he wrote that the second definition was more consistent with how economists had *traditionally* used the term and that it would be difficult to change the traditional usage. In commenting on the two different uses, Mises says:

> There is, however, no danger that the equivocal use of this term may result in any ambiguity in the exposition of the catallactic system. Wherever any doubts are likely to appear, they can be dispelled by the employment of the term promoter instead of entrepreneur (*ibid*.: 255).

3. CRITIQUE

Because Mises employed two concepts of the entrepreneur, we must present a critique of both. We begin with the functional entrepreneur.

The Functional Entrepreneur

Mises begins his discussion of entrepreneurship by saying that "[e]ntrepreneur means acting man in regard to the changes occurring in

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[2]The term "datum" is italicized because if its specific meaning to Mises, as stated at the beginning of this chapter.

[3]Mises appears to have borrowed the term "promoter" and its accompanying concept "speculator" from Wieser (1967: 358-367). A careful reading of Wieser will show, I believe, that the deeper, Clarkian concept of the functional entrepreneur is absent.

the data of the market" (*ibid*.: 254, as quoted above).[4] He goes on to say that the promoter "refers to a datum that is a general characteristic of human nature" (*ibid*.: 255, as quoted above). Thus, it may appear that he intends to distinguish between (1) the functional entrepreneur as *homo agens* (*ibid*.: 14) who adjusts to, anticipates, and generally acts with respect to, the data of the market (i.e., the praxeological entrepreneur and (2) the promoter as representing some aspect of that data. In this interpretation, the incomes of the various functional classes, aside from the entrepreneur, can be represented by the static equilibrium or Mises's evenly rotating economy. But the profit of the entrepreneur can only be identified and elucidated by contrasting the static equilibrium or ERE with a "dynamic system" that contains entrepreneurship. In other words, it might appear that Mises has in mind praxeological entrepreneurship, as we defined this term in Chapter Two. However, this interpretation, which the author himself made in an earlier work (Gunning 1990), seems erroneous. Part of the reason for the misinterpretation seems to be the author's misreading of a pertinent footnote (*ibid*.: 254), in which Mises refers readers who are interested in an "epistemological treatment" of this concept to John B. Clark (1899a: 5) and Eugen Bohm Bawerk (1962: 197-8), who had also referred to Clark. To the author, it seemed that Mises was relating his own method of elucidating entrepreneurship and profit and loss (Mises 1966: 248) to Clark's dynamic part of economic science. However, my interpretation was based on a different Clarkian epistemological treatment of entrepreneurship. In a *Quarterly Journal of Economics* paper in the same year that his book was published, Clark (1899b) asserted that the function of entrepreneurship lies in the "dynamic" part of economic science as opposed to the static part (as represented by the static equilibriem and Mises's ERE). Clark writes:

> The origin and destination of profit is one chief subject of Economic Dynamics. That science, if it were complete, would examine *seriatim* the various changes that bring profit into existence, and the mechanism by which, under the influence of competition, that profit is ultimately diffused throughout the whole of society. It would study the effects of this diffusion on wages and interest (*ibid*.: 198).

"Profit" here means the return to the entrepreneur, which is absent from the static part of economic science. It differs from wages and interest, which are incomes to passive contributors to the satisfaction of consumer

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[4]This concept is reflected most fully in Mises's notion of the class of pure entrepreneurs (*ibid*.: 256) and the corresponding image of a pure entrepreneur economy. See also his discussion of the entrepreneur function on p. 61, 299, and 306.

wants. While Mises also suggests this kind of distinction at places in *Human Action* (for example at Mises 1966: 535)[5], the general thrust of his discussion is quite different. Mises's actual discussions of the entrepreneur in the market and his failure to develop more fully the meaning of the idea of "acting man in regard to the changes occurring in the data of the market" suggest that, even if he started thinking about this, he did not follow through.[6] Regarding his discussions, in every place where he could have been referring to the praxeological entrepreneur, he also refers to the capitalists and the owners of the factors of production as if to remind readers that these also are examples of the class of *homo agens*. For example, in his first discussion of the entrepreneur in his chapter on "The Market," he writes that "[T]he notion of capital [accounting]...is a device of capitalists, entrepreneurs and farmers eager to make profits and to avoid losses" (*ibid*.: 264, as quoted above). His introduction to the sub-section on "consumer sovereignty" begins with a statement that appears to be about the praxeological entrepreneur. He writes: "The direction of all economic affairs is in the market society a task of the entrepreneurs" (*ibid*.: 269). Yet he immediately reminds us of what we have called the functional entrepreneur. In the same paragraph he writes: "Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced" (*ibid*.: 270).[7] We must surmise that although he may have had the praxeological entrepreneur in mind at some stages of his writing, he did not see the usefulness of separating that concept from the functional entrepreneur. In short, contrary to the author's previous remarks (1990), his practical discussions do *not* support the hypothesis that he meant for the functional entrepreneur to refer to *homo agens* in relation to changes in the data of the market. Or, if this is too strong a claim for the pallette of some readers, it is sufficient for this book to make the weaker claim that he did not sufficiently develop the praxeological entrepreneur concept.

By associating the entrepreneurs with capitalists and farmers, he promoted the view that there is no advantage to separating *homo agens* in the market economy from consumer-savers, the suppliers of the factors

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[5]Also see footnote 3 of Chapter 5 in this book.

[6]That he did not follow through is evident in a 1951 lecture, where he presents the same ideas on profit and loss that he presented in *Human Action*, yet substitutes the term "entrepreneur" for "promoting entrepreneur." See Mises 1952.

[7]Similar statements appear later on the same page.

of production, and various other specialized actors like farmers. And by failing to write about this advantage, he exhibits his lack of awareness of the importance of the praxeological entrepreneur concept as part of the step-by-step process of developing sound economic theory.

The Promoter

The promoter concept has played a big part in the market process analysis of some modern neoAustrian economists. As pointed out earlier, to Mises it was based on the idea that when describing market interaction, the economist ought to take account of differences in initiative, venturesomeness, keenness of eye and mind, leadership ability, etc. The following assessment agrees that accounting for such differences is an important part of the project of developing relevant economic theorems. However, it argues that the term "entrepreneur" should be reserved for the concept of the praxeological entrepreneur described in Chapter Two. This is the best way to assure that economic theorems can be traced back to human action. One who uses the term "entrepreneur" in Mises's sense of the promoter is, at best, likely to pay too little attention to the praxeological roots of economic theorems and, at worst, likely to err in his presentations.

In light of Mises's discussion of the data, we can phrase our point in another way. Because the qualities that Mises attributes to the promoter are data and because a property of praxeological entrepreneurship is appraisement, we should treat these qualities as data that praxeological entrepreneurship appraises. Praxeological entrepreneurship employs the people whose preferences, ideas, theories, and ideologies it regards as being likely to add to profit, including Mises's promoters. We can only assure that our descriptions can be traced back to action by viewing all data through the eyes of the appraising and undertaking praxeological entrepreneur. To maintain and reinforce our methodological conviction that praxeology is the foundation of economics, we should not focus on data itself but on the appraisement of the data. We should take the praxeological entrepreneur point of view.

The data that Mises uses to distinguish his concept of the promoter can be divided into two classes: differences in wants and differences in abilities. The first refers to what Mises calls differences in "initiative," "eagerness to profit," and "venturesomeness." The second refers to differences in abilities, such as keenness of mind and leadership. We consider each in turn.

Promoters and Differences in Wants

Mises differentiates the promoter from other individuals by saying that such a personage is more "eager to profit," has greater initiative, and is more venturesome (Mises 1966: 254-5). From a praxeological perspective, this means that one individual may get more satisfaction from appraising, undertaking and/or bearing uncertainty than another. It means that different individuals have different wants and that these wants differentially affect their decisions to act as producer-sellers. Suppose that two individuals, A and B, both believe that purchasing a particular set of factors, producing a good, and selling it will yield an identical loss of X dollars. The only difference is that B is willing to a become a producer-seller in spite of her anticipated loss (i.e., in spite of the fact that she anticipates that her expected revenue will not cover her expected money and other opportunity costs). A chooses not to become a producer-seller.

It should be evident that, if we exclude B's own satisfaction, her choice is unlikely to be in the interest of consumers. Assume that in order to produce her product, she bids factors away from not-so-eager undertakers. If she had chosen not to bid for the factors, those undertakers would have anticipated profit. If all anticipations were correct, B would produce goods that consumers prefer less, in terms of money, than those goods that would have been produced by the others. In this case, there is not complete consumer sovereignty even in the absence of the other conditions described in Chapter Three; consumer sovereignty competes with promoter sovereignty, so to speak.

It follows from this that what Mises calls entrepreneurial profit and loss includes an element of the promoter's satisfaction of his own wants. It follows, in turn, that his statements about profit and loss are at best incomplete and at worst incorrect, at least insofar as we associate profit directly with praxeological entrepreneurship.[8] The confusion could have

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[8]Which it is cannot be determined since Mises does not rigorously define the roles of the entrepreneur and the consumer from a praxeological point of view. It might be argued that Mises was only writing about accounting profit, and not the profit associated with praxeological entrepreneurship as the mandatory of consumers. Support for this view comes from his statement that he is concerned in the section on entrepreneurial profit and loss with the "promoters' entrepreneurial profit and loss," which is what "people have in mind when employing the terms in mundane speech" (*ibid*.: 290). However, he goes on to tell how the entrepreneur's "technological ability does not affect the specific entrepreneurial profit and loss" (*ibid*.: 291) and how profit and loss are not associated with accidents. Surely, he could not have believed that the terms as used in mundane speech take account of these complex applications of the opportunity cost principle. From the point of view of mundane speech, there is little substantive difference between asserting that entrepreneurship should include the quality of being better able to anticipate future conditions (*ibid*.: 293) and asserting that it should include

been easily avoided by developing the concept of the praxeological entrepreneur, who appraises factors on the basis of his understanding of both the wants of the consumer role and the wants of the eager-to-profit promoter. Imagine a "capitalist entrepreneur" who accepts a fee from a promoter for allowing her to participate in the enterprise by employing the capitalist entrepreneur's money. The promoter agrees that, say, after one year, he will turn over the income and responsibility for loss to the capitalist entrepreneur. Both the promoter and the capitalist entrepreneur anticipate an accounting loss. However, because of the inherent uncertainty of the enterprise, they both know that it may yield an accounting profit. If the profit exceeds an agreed-upon amount, they agree that the excess will belong to the promoter.

The fee would compensate the capitalist entrepreneur for the loss he expects to incur in the enterprise. And the hope for the excess would satisfy the promoter's eagerness to profit and venturesomeness (EPV). We can imagine a class of such capitalist entrepreneurs who seek out the EPV promoters who are willing to pay fees in exchange for the legal rights to act in the role of the promoter. The capitalist entrepreneurs would perform the function of assuring consumer sovereignty because they would balance the money-evaluated satisfaction of the eager promoters against the money-evaluated satisfaction of consumers.

No doubt there are many cases in which only EPV individuals would have the ability to appraise the factors needed to complete a particular production-sales project. There being no capitalist entrepreneur available, the project could not occur unless the EPV individual also was willing to finance it. There are no doubt other cases in which such projects are not carried out at all because the promoter lacks the financing and no one else has appraised the factors as high as he. Finally, there are no doubt cases in which such projects are not carried out because of the transactions costs of enforcing the agreement between the promoter and capitalist entrepreneur.

The significance of the qualities of EPV must surely be questioned. This is not to disregard the inherent uncertainty of entrepreneurial ventures. Unless someone is willing to bear that uncertainty, the venture could not occur. However, excessive focus on the personal characteristics of EPV diverts one's attention away from the much more important phenomena of credit markets, guaranty, and other interpersonal arrangements that

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the quality of having superior technological ability. Yet Mises only includes the former at this juncture. At best, his discussion generates substantial confusion.

enable projects to be carried out in spite of initial appraisers' reluctance to bear the uncertainty.

Promoters and Differences in Abilities

Mises says that promoters have "a quicker eye than the crowd." He means by this that individuals in the market economy differ in their *abilities* to recognize the gain that results from performing a given behavior. He also speaks of promoters as being shrewder, more intelligent, quicker of apprehension, and farther-sighted (*ibid*.: 328). This seems to reflect an assumption that individuals differ in their abilities to perform specific tasks -- in particular, the tasks associated with appraising and managing factors.

Suppose that others fully appraise the different abilities and employ those that they regard as profitable to employ. Then the abilities would merely be factors that entrepreneurship appraises. The abilities would not be part of praxeological entrepreneurship. For example, suppose that you differ from others only in that you are more capable of appraising or managing. Suppose further that others' entrepreneurship recognizes your superior ability. Then someone will bid for your services. If the bid is high enough, you will become an employee. You will apparently become a technician or hired manager in Mises's terminology (*ibid*.: 303-8).[9]

The more significant case is where *only* the individual with the assumed superior ability perceives his superiority and uniquely appraises it. Suppose that you are a superior appraiser of other factors or a superior manager and that only you recognize your superiority. Other individuals do not recognize it or are slow to recognize it. Assuming that you can afford to bear the uncertainty, you will proceed to employ your appraisement ability. You will do this either by financing the project yourself or by providing the necessary guaranty to other financiers. You will have no opportunity to obtain employment that yields comparable income.

In this example, one might say that there are two causes of your decision to carry out the production-sales project: (1) your superior ability and (2) your appraisal of it at a higher amount than others' appraisals. Which cause should the praxeological economist emphasize? If he focuses only on the first, then he can illustrate it by building a model of robot entrepreneurs with differing abilities. However, such a model would not represent the distinctly human action associated with praxeological entrepreneurship. Descriptions based on it could not be traced back to human action.

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[9]This presumption is reasonable in light of the absence of any discussion in the relevant passages of the agency problem.

We can only assure this tracing back by focusing on appraisement -- i.e., if we view differences in abilities to appraise through the eyes of the praxeological entrepreneur.

Differences in abilities are relevant to economics only insofar as praxeological entrepreneurship perceives and appraises them. When this occurs, the entrepreneurship causes the abilities that it regards as superior to receive higher prices. Or, if there is no market for such abilities, the individual who possesses them will self-employ, provided that he possesses the funds to do so, and the willingness to bear the uncertainty.

4. PROMOTERS AND PROGRESS

To see how misleading and unhelpful this notion of the promoter can be, consider what happened when Mises combined the concept of the promoter with progress. He writes the following:

> 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 promoters intent upon profiting by means of adjusting the conduct of affairs to the best possible satisfaction of consumers. In the performance of their projects for the realization of progress they are bound to share the benefits derived from progress with the workers and also with a part of the capitalists and landowners and to increase the portion allotted to these people step by step until their own share melts away entirely (*ibid*.: 297).[10]

We must take Mises to mean that those individuals who are venturesome and who have superior abilities as appraisers and decision-makers cause progress but only (or almost only) if they possess or are provided with *additional* capital goods or with improvements in technological methods. They proceed to use these "vehicles of economic progress" in a way that helps satisfy consumer wants more effectively than otherwise. In the meantime, competition among promoters requires them to ultimately share what previously were their profits with the workers, financiers and property owners. Indeed, the promoters will ultimately earn no profit at all, since competition demands that factor suppliers and consumers ultimately reap all of the gains.

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[10]Also see *ibid*.: 609.

In order to assess these statements, we must try to relate them to a praxeological theory of progress.[11] Such a theory would focus on the choices of individuals that cause the progress to occur. A logical candidate is the deliberate discovery or invention of new capital goods or methods of producing them that we would expect to result from the natural imagination, creativity and inventiveness under the conditions of competitive free enterprise. We present such a theory below. Mises, however, apparently did not approach the subject in this way. Because of this, his discussion of progress is vulnerable to criticism from the viewpoint of praxeological economics.

Mises identified two "vehicles of progress:" additional capital goods and improvements in technological methods. We consider each in turn, from the praxeological viewpoint.

Additional Capital Goods

Consider first the additional capital goods. We can identify two non-deliberate sources of additional capital goods: accident, or luck, and time preference. We consider each in turn.

Luck

It is possible that additional capital goods would result from pure luck, such as an unexpected good harvest or accidental discovery of factor deposits. The promoters would proceed, through their competition, to employ these in accord with the principle of consumer sovereignty. Progress would occur because some of the additional capital goods would be used to help produce goods that would otherwise not have been produced.

Although this is a story about promoters and progress, the progress is not caused by praxeological entrepreneurship, except in the trivial sense that we assume that the promoters are sufficiently alert to the accidental discovery, that they know enough to use it to at least temporarily raise their profit, and that they are willing to bear the uncertainty. The promoter here is mainly the *passive* recipient of knowledge generated

[11]We shall not deal here with the definition of "progress." Mises presented his argument in the context of a pure market economy. The economy he had in mind not only contained no external effects but also no actions designed to take advantage of others' errors. Under these conditions, one can define progress in terms of the new products that consumers prefer to existing products or new methods of the production that can be used to produce products with a lesser sacrifice of leisure.

from outside human action. In a praxeological theory, praxeological entrepreneurship would be an *active* cause of the discovery.

Change in Time Preference

Now consider a change in time preference. A decrease in time preference would lead individuals to want to consume fewer goods in the near future and more goods in the distant future. Misesian promoters would respond competitively by shifting factors away from the satisfaction of near future wants and toward the satisfaction of distant future wants. They would lengthen the periods of provision or, in simpler terms, produce more capital goods.

One problem with this explanation is that this scenario does not represent what ordinary people conceive as progress. To help us see why, let us compare two isolated actors. The first is frugal and plans well for his retirement. The second, is the opposite. Otherwise, they are equally capable of satisfying their wants for goods, which we also assume are identical. As their capacity to produce declines with age, the latter would have a lower stock of capital goods and, as a result, would enjoy fewer consumer goods and probably die sooner. It does not seem commonsensical to call the first person more progressive.

This analogy might be regarded as improper. Whereas the isolated actor lives a lifetime and then dies, a society of individuals can be said to go on forever. So let us compare two identical societies one of which is relatively more frugal. The latter would persistently possess a larger quantity of capital goods. Whether the second is more progressive, however, depends on how the capital goods are used. We might expect that praxeological entrepreneurship would use part of a greater amount of capital goods to finance research and exploration. But nothing in the promoter concept implies the presence of this research financing. Moreover, a fair comparison would include research financing in the less frugal society also. One might argue that the greater urgency to satisfy nearer-future wants in the high time preference society would place a premium on research.

The problem is that unless one adds an assumption about the imagination, creativity and inventiveness of praxeological entrepreneurship; the individuals in Mises's images are destined to be passive. Promoters who respond to characteristics of time preference shift factors about but they do not necessarily discover new products and methods of production.

Improvement in Technical Methods of Production

Now consider the second source of progress described by Mises -- the improvement in technical methods of production. We can conceive of two sources of such improvement: good fortune and deliberate exploration. Suppose that the improvement in technological methods is due to good fortune. Consider first the isolated actor. Crusoe is walking along a trail and he is suddenly zapped with a dose of knowledge about how to improve his well-being through production. He proceeds to use his knowledge to enhance his well being. Such a cause is of no interest to the praxeologist. The second source -- deliberate exploration -- is obviously relevant. It is initiated by human experimentation and inventiveness. This is the source that best matches our common sense notion of progress from the praxeological viewpoint. We assume that human beings have the ability to make such discoveries. Then we define progress as the changes in technical methods that are achieved as a consequence of deliberate efforts to make them. Note, however, that deliberate exploration does not appear to be captured by the concept of the promoting entrepreneur that Mises uses. Mises writes that promoters adjust "the conduct of affairs to the best possible satisfaction of consumers" (quoted above). But he seems nowhere to mention that they deliberately command factors of production to explore for new products and methods of production. It is possible, however, to locate a motivation for technological advance in the competition among employer-producer-sellers that is both commonsensical and praxeological.

Economic Progress With a Praxeological Foundation

To link the discovery of new goods or technical methods to distinctly human action, we must connect it to some property of the category of action by means of a subsidiary assumption or set of assumptions. In other words, we must make some assumption or set of assumptions about the data, about the conditions or characteristics of the market economy, or some combination of these. Of course, the relevance of our assumption depends on whether such data, conditions, or characteristics actually exist.

We begin with an assumption about the data by considering the isolated actor. Experience suggest that distinctly human actors engage hardship by exercising their imagination, creativity and inventiveness. Consider an image of a Crusoe who is faced with a deteriorating environment in which he is unable to survive unless he identifies new goods or discovers new methods or production. Would we not expect Crusoe to deliberately try to identify new products and methods of production? Let us change

the conditions and assume that the environment is not deteriorating. Crusoe's incentive to identify new products and methods of production would be substantially less and perhaps would not exist at all. If we agree that this assumption about Crusoe's imagination, creativity and inventiveness in a deteriorating environment is realistic, then we are ready to consider the possibility that a characteristic of the market economy would be a chronic deterioration of individual abilities to satisfy their wants.

It so happens that the market economy contains entrepreneurial competition which, as experience teaches us, makes a deteriorating personal environment a persistent occurrence in the eyes of many actors. To isolate competition as the cause of progress, let us assume that there are no changes in the data of the market economy other than those introduced by entrepreneurship itself. In addition, there are no changes in the material environment. Thus, we assume a market interaction in which there is no change in consumer wants or deterioration in the means of satisfying them. Given this assumption, suppose that someone discovers a new product or method of production -- through deliberate action, luck, or whatever. When this occurs, her competitors will face the prospect of deteriorating incomes. Their experience is comparable to that of Crusoe in a deteriorating environment. Even though the material environment of the market economy does not change significantly, the personal environments of some individuals deteriorate seriously. If we put ourselves in the shoes of those individuals, would we not have an incentive to change our actions? As competitors facing a deteriorating ability to satisfy our wants, we can either copy the discovery, possibly improving on it; or we can try to make a new discovery of our own.

Let us put ourselves in the shoes of the discoverer of the new product or method of production. At first, the discoverer earns higher profit and is content with her actions. However, as others copy the innovation, her income and that of her specialized employees, who have come to rely on her profitability, would deteriorate. Ultimately, to avoid losses, she would have an incentive to either copy someone else or to discover yet another new product or method of production.

Thus we have an interactive pattern that has the potential of bringing progress in the usual sense. Innovation or copying by each actor under free enterprise reduces the capacity of competitors to satisfy their wants. To avoid a deterioration in the satisfaction of their wants, they themselves have an incentives to innovate and copy. This, in turn, threatens the capacity of still others, including the original innovator or copier. The result is a continuing concatenation that includes what we ordinarily mean by progress.

Is this image of innovation and copying realistic? Consider the global market economy that exists in everyday life. In the modern world of relatively free trade and international competition, there appears to be a continuing stream of new participants who aspire to the standards of living that they observe in others both in their own regions and in other regions. They aim to copy the methods of production used by market participants who enjoy higher standards of living. In this circumstance, if the latter are complacent -- if they fail to recognize that the means used to earn profit today are destined to become relics tomorrow -- they will retrogress. Complacency leads to disappointment. As Hayek wrote, "[m]an learns by the disappointment of expectations" (Hayek 1958: 193). One should add: The ordinary actions of some people under market economy conditions cause others' expectations to be disappointed and therefore is an important contributory factor to the learning.

We need not refer to the possibly unusual conditions of luck, change in time preference, or exogeneous improvement in technology to find a source of competition. So long as there is free enterprise in the modern global market economy, the normal human process of birth, maturation, and aging would seem to assure that, under normal circumstances, there would be an unending influx of new minds into the market economy to compete with those that are maturing and aging.

These general assumptions about the incentives individuals would face under market competition can be stated more formally. We can derive a praxeological cause of progress from a combination of two subsidiary assumptions: (1) that human actors have an incentive to discover new methods of satisfying their wants in an environment they perceive to be deteriorating and (2) that competition under free enterprise causes the want-satisfying capacities of some actors to deteriorate. Past deterioration and the prospect of further deterioration provides actors in economic interaction with an incentive to deliberately try to identify new products and methods of production.

It is interesting to note that our theory of progress is based on the assumption that individuals differ, which is also the distinguishing characteristic of Mises's definition of the promoter. However, in our theory, we assume only that individuals differ in the *circumstances* they face. We assume that individuals acting in the role of entrepreneurs occupy different positions in their entrepreneurial competition. They may use different methods of production or produce different goods. As a result, the profit positions of some are threatened by the innovation and copying of others. This assumption is merely a manifestation of the already-stated characteristics of the pure market economy. No special

additional assumption about eagerness to profit or differences in ability to predict and react is needed.

In this subsection, we have developed a theory of progress in peoples' material conditions that attributes the new products and methods of production to deliberate efforts to maintain profit and avoid loss. From this point of view, Mises's attribution of progress to saving, the accumulation of capital, and promoters' adjustments to consumers's wants is unsatisfactory.

Personal Differences a Fundamental Assumption of Praxeological Economics

What is the status of the assumptions that individuals differ in their preferences toward bearing uncertainty and abilities to anticipate and adjust to the actions of others? We must begin with the status of the assumption that individuals differ in their properties of action. Can we call this an a priori assumption? Although all actors, by definition, have ends and means and experience uncertainty, is it also true by definition that they do or may differ in their ends and means and in their view of uncertainty? To be an a priori assumption of praxeology, according to the criteria provided by Mises, it must not be possible to imagine action without this property. Since we can imagine an isolated actor, individual differences would seem not to qualify according to this criterion. However, in economics, and practically always also in other branches of praxeology, we are never interested only in the isolated actor. The nature of our subject matter requires us to deal with interaction. In economics, in particular, we assume specialization. From this point of view, the question of whether the assumption of such differences is an a priori one seems irrelevant. We take it as a fundamental assumption of economics that individuals differ in their ends and means, their attitudes toward uncertainty, and in their perceptions.

What, then, can we make of the emphasis that Mises places on these assumptions in his definition of the promoter concept? The best answer the author can give is that there is as yet no good vocabulary for representing the fundamental ideas of praxeological economics. The phenomena Mises represents when he uses the concept of the promoter are real. Competition, consumer sovereignty, and the selection of the factors are characteristics of the market economy. Every introduction to economics ought to describe these.

This is an acceptable answer for an author who is unsure of how the new praxeological economics would be understood and received by one's readers. Today, however, as we look back on the half century since the

publication of *Human Action*, we ought to give a different answer. Mises's praxeological economics has apparently not only been shunned by the mainstream of economics, it has confused those who regard themselves as followers of Mises and/or of Austrian economics. In the author's view, the key to its revival lies with developing the methodology and vocabulary that Mises himself declined to develop.

5. THE ULTIMATE SOURCE OF PROFIT

Clearly, the praxeological view must attribute profit ultimately to the actions of individuals. What then can we make of Mises's statement that "[t]he ultimate source from which entrepreneurial profit and loss are derived is the uncertainty of the future constellation of demand and supply" (Mises 1966: 293). He goes on to write:

> If all entrepreneurs were to anticipate correctly the future state of the market, there would be neither profits nor losses. The prices of all the factors of production would already today be fully adjusted to tomorrow's prices of the products. In buying the factors of production the entrepreneur would have to expend (with due allowance for the difference between the prices of present goods and future goods) no less an amount than the buyers will pay him later for the product. An entrepreneur can make a profit only if he anticipates future conditions more correctly than other entrepreneurs (*ibid*.).

What Mises appears to do in this passage -- and, more generally, in writing extensively about the promoter -- is to focus on uncertainty and passive anticipations at the expense of active appraisement and undertaking. To see the significance of this, consider Crusoe. Should we attribute Crusoe's gain from action to his passive *ability* to anticipate his wants and the future environment? Or should we attribute it to his *deliberate efforts* to identify his wants and ways to satisfy them *and his decisions* to carry out plans that he devises? It seems obvious that the latter should be the focus of the praxeologist.

Regarding entrepreneurship's action in the market economy, Mises appears to answer this question properly, given his assumptions about error, etc., much later in the book. He writes: "What produces a man's profit in the course of affairs within an unhampered market society is not his fellow citizen's plight and distress, but the fact that he alleviates or entirely removes what causes his fellow citizen's feeling of uneasiness" (*ibid*.: 664). He seems to say that the source of profit is one person's

action to help satisfy the wants of another person. Remarkably, however, and in the same paragraph, he goes on to write:

> The ultimate source of profits is always the foresight of future conditions. Those who succeeded better than others in anticipating future events and in adjusting their activities to the future state of the market, reap profits because they are in a position to satisfy the most urgent needs of the public. The profits of those who have produced goods and services for which the buyers scramble are not the source of the losses of those who have brought to the market commodities in the purchase of which the public is not prepared to pay the full amount of production costs expended. These losses are caused by the lack of insight displayed in anticipating the future state of the market and the demand of the consumers (*ibid*.).[12]

[12]We should point out that although the section in which this paragraph appears is entitled "The Ultimate Source of Profit and Loss on the Market," Mises's goal is not to provide a methodological foundation for the concept of entrepreneurial profit but to refute the fallacy that "the gain of one man is the damage of another; no man profits but by the loss of others" (*ibid*.: 664). This fallacy can be refuted without resort to the praxeological concepts of the entrepreneur and profit. Nevertheless, the concept of profit is so crucial to praxeological economics that one must object to the use of the term in this context.

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