

On Market Order: Four tensions on market theories in Neo-Austrian Economics

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1. Introduction

The task of this paper is to make clear some tensions within the neo-Austrian Economics which is named after the rebirth of Austrian Economics in 1970s. The basic tenets of neo-Austrian Economics are not monolithically unified but hold various antagonistic relations. Four levels of antagonistic views can be pointed out especially among three figures of this school, namely Rothbard, Kirzner and Hayek: (1) praxeology versus theory of knowledge, (2) uncertainty bearer versus ignorance eliminator, (3) pure entrepreneur with alertness versus self-organizing activity, and (4) unhampered market versus constitutionally formed market. The first two tensions lies between perspectives of Rothbard and Kirzner. The third lies between Kirzner and Hayek. The fourth lies between Rothbard-Kirzner alliance and Hayek¹. Through the examination of these tensions, I shall show that the concept of “order” or “coordination” of the market is not shared among neo-Austrian Economists. At the last section, I try to respond the basic question: in what sense the concept of market order is useful if it is possible to use at all.

2. Mises-Rothbard versus Hayek-Kirzner

In his *Human Action*, Ludwig von Mises takes Smith’s “Invisible Hand” from a utilitarian perspective:

¹ Ludwig Lachmann’s view on the market process will be examined in another opportunity.

The historical role of the theory of the division of labor as elaborated by British political economy from Hume to Ricardo consisted in the complete demolition of all metaphysical doctrines concerning the origin and the operation of social cooperation. It consummated the spiritual, moral and intellectual emancipation of mankind inaugurated by the philosophy of Epicureanism. It substituted an autonomous rational morality for the heteronomous and intuitionist ethics of older days. Law and legality, the moral code and social institutions are no longer revered as unfathomable decrees of Heaven. They are of human origin, and the only yardstick that must be applied to them is that of expediency with regard to human welfare. ... [The utilitarian economist] does not ask a man to renounce his well-being for the benefit of society. He advises him to recognize what his rightly understood interests are. In his eyes God's magnificence does not manifest itself in busy interference with sundry affairs of princes and politicians, but in endowing his creatures with reason and the urge toward the pursuit of happiness [Mises 1949→1963: 147].

Following Mises' insight for the "invisible hand", Rothbard elaborates the praxeological explanation on the advantage of the market exchange:

"[A] contractual society leaves each person free to benefit himself in the market and as a consequence to benefit others as well. An interesting aspect of this praxeological truth is that this benefit to others occurs regardless of the motives of those involved in exchange. ... It is this almost marvelous process, whereby a man in pursuing his own benefit also benefit others, that caused Adam Smith to exclaim that it almost seemed that an "invisible hand" was directing the proceedings. / Individuals recognize, through the use of reason, the advantages of exchange resulting from the higher productivity of the division of labor, and they proceed to follow this advantageous course. In fact, it is far more likely that feelings of friendship and communion are the effects of a regime of (contractual) social co-operation rather than the cause." "The mutual benefits yield by exchange provide a major incentive ... to

would-be aggressors (initiators of violent action against others) to restrain their aggression and co-operate peacefully with their fellows.” [Rothbard 1962: 84-85, 86](underline is mine)

Here, Rothbard makes two points. One is what can be called as a fundamental utilitarianism, which says that the advantage of the market exchange economy can be understood through the use of reason. This justification of the market economy is not the act-utilitarianism or the rule-utilitarianism but another version of utilitarianism that appeals only to Human Reason. Rothbard also pays attention to the ethical problem of “aggressors.” According to Rothbard, market provides an ethical incentive for aggressors “to restrain their aggression and co-operate peacefully with their fellows.”

However, from this Rothbardian perspective, there raises no question on how market coordinates by itself: since the advantage of the market economy can be justified through the use of “Reason,” we need point out neither whether the market has its inner power of self-coordination nor whether the market has its inner problem of disadvantage and discoordination. Within the Mises-Rothbard’s framework, there is no place for theoretical problems to which the other Austrian economists direct their concern.

In his essay “The Present State of Austrian Economics”, Rothbard marks a clear distinction between Mises-Rothbard’s praxeology and Hayek-Kirzner’s theory of Man [Rothbard 1995a: 111-172]. The central issue here is the comprehension of the concept of “Knowledge and Uncertainty” in the science of economics. In the Misesian-Rothbardian praxeology, while the knowledge of the present is never perfect, “man obtains knowledge, which one hopes increases over time, of natural laws, and of the laws of cause and effect, which enable him to discover more and better ways of mastering nature and of bringing about his goals ever more effectively”[ibid: 123].

As for the function of the entrepreneur, Mises and Rothbard seem to follow the Knightian conception: Misesian-Rothbardian entrepreneur takes a role of bearing “uncertainty,” with which exactly Frank Knight contrasted the insurable risk (such as lotteries). What distinguishes the Misesian-Rothbardian entrepreneur from Knightian is that the action of the Misesian-Rothbardian entrepreneur is ascribed to the unique exercise of the human power of reason

that does not work in the socialist economic planning, while Knight sees the success of the entrepreneurial activity is a matter of luck.

In contrast with praxeology, according to Rothbard, Hayekian-Kirznerian conception of Man is not praxeological but passive. “Hayek-Kirzner see a world of knowledge out there, with the unconscious forces of the market supplying man with that knowledge, through market price and profit-and-loss signals. The Hayek-Kirzner entrepreneur, indeed, is strangely passive; he scarcely acts like an entrepreneur at all. He risks nothing, and he really knows nothing, except what the signals of the price system teach him...”[ibid: 127-128]. Joseph Salerno also points out that there is a great difference between Mises and Hayek in the socialist calculation debate. According to his explanation of the praxeology, the price system is not a mechanism for economizing and communicating the knowledge relevant to production plans as Hayek points out. The market system is a basic condition for the economic calculation and is not the means of acquiring knowledge [Salerno 1990:44]. Rothbard succeeds this Misesian position and insists that the praxeological view of the market system has nothing to do with the knowledge problem.

Rothbard also adds a sharp contrast between Mises and Kirzner in terms of the explanation of the entrepreneur. “If superior alertness accounts for entrepreneurial profits, what in the Kirznerian world can account for entrepreneurial losses? The answer is nothing” [ibid: 128]. “The Misesian entrepreneur ... is not a passive, if alert, recipient of ‘knowledge’ provided by the price system” [ibid: 129]. Thus, Rothbard emphasizes that Misesian entrepreneur is an active Man, “whose function is to appraise – to anticipate – future prices and to allocate resources accordingly” [ibid: 426]. “Kirzner seems to overlook the vast difference between Mises’s forecasting and appraisal view of entrepreneurship” [ibid: 428 n. 30]. Kirznerian entrepreneur takes no risks. “Since he need not risk any capital assets to meet the chancy fate of uncertainty, he cannot suffer any losses” [Rothbard 1997b: 247].

According to Rothbard, Misesian entrepreneur must become a capitalist (an asset owner) at the same time because any brilliant idea of the entrepreneur needs to be tied with some assets to be invested in any project. When we see the Misesian entrepreneur from the point of an active uncertainty-bearer, Rothbard’s criticism for Kirzner’s theory has its point.

However, there is a certain amount of textual justification in Mises for Kirznerian interpretation of the entrepreneur. Mises distinguishes the function of capitalist from the function of entrepreneur and this functional distinction bears a room for Kirzner as another inheritance of Mises's theory of economics.

3. Mises-Knight-Rothbard versus Mises-Kirzner

In response to Rothbard's criticism, Kirzner admits that there is a tension between Mises-Knight line and Mises-Kirzner line of the conceptions of the entrepreneur [Kirzner 1985: 44]. While Misesian-Knightian entrepreneur faces present uncertainty, Misesian-Kirznerian entrepreneur faces earlier error that has been an unnoticed profit opportunities. While the former sees the function of entrepreneur as the bearer of uncertainty, the latter sees it as the discoverer of earlier market errors [Kirzner 1985: 53]. Now facing this theoretical disagreement, Kirzner goes to develop his theory of entrepreneurship toward a direction to dissolve the tension between Rothbard's and his own explanations. The uncertainty bearer and the discoverer of error can be "two sides of the same entrepreneurial coin" when we regard the uncertainty as what entrepreneur actively overcome. Kirzner introduces concepts of "endeavor" and of "incentive" when he extends his theory to explain how entrepreneur overcomes the uncertainty of the future:

[T]o choose means to *endeavor*, under the incentive to grasp pure profit, to identify a more truthful picture of the future. ... In this way of viewing the matter the distinction between escaping current error and avoiding potential future error is unimportant. The discovery of error is an interesting feature of action because it offers incentive. It is this incentive that inspires the effort to pierce the fog of uncertainty that shrouds the future. ... Entrepreneurship in individual action consists in the endeavor to secure greater correspondence between the individual's future as he envisages it and his future as it will in fact unfold. This endeavor consists in the individual's alertness to whatever can provide clues to the future [Kirzner 1985: 57-58].

Thus, seeing the market reality from the human endeavor and incentives for profit, Kirzner tries to dissolve the theoretical tension between his and Mises-Knight-Rothbard's explanations. However, is Kirzner's response successful? Is the ethical concept of "endeavor" a requisite for both Kirznerian and Rothbardian theories of entrepreneur? Two theoretical differences seem to remain crucial: while Kirznerian entrepreneur is contrasted with Robbinsian maximizer, Rothbardian entrepreneur makes no sharp contrast between purposeful action and entrepreneurial activity. It means that in Mises-Rothbard's line of thinking, entrepreneurial activity has its own cost, while in Kirznerian framework entrepreneurial discovery takes no cost. Secondly, while Kirznerian entrepreneur has no practical skill of the capitalist with regard to the uncertainty "bearing", Rothbardian entrepreneur has it.

It can also be pointed out that Rothbardian interpretation of Mises's entrepreneur with reference to Knightian entrepreneur as an uncertainty-bearer has its theoretical problem of "market coordination". How is it possible that Knightian entrepreneur coordinates market toward equilibrium? As Kirzner points out, Knight himself makes an ethical criticism for the market coordination at this point [Kirzner 2000: 94]. Relying on the neoclassical perspective on the ethics of the perfectly competitive world, Frank Knight believes that entrepreneurial losses are likely to outweigh entrepreneurial profit in a real market economy, which lacks the conditions of the perfect competition [Knight 1921: 347].

Thus if we follow this observation of the entrepreneurial losses, market system cannot be said as having a tendency toward equilibrium in itself. Knightian explanation of the function of the entrepreneur does not ensure the systematic elimination of the uncertainty in the market. Kirzner also complains about Knightian explanation of entrepreneur: from Knight's perspective, a successful entrepreneur is successful not because of his alertness but because of his fortune. For Knight, a practical skill of the uncertainty bearing is a matter of luck and has nothing to do with the incentive and the endeavor that the market system promotes [Kirzner 1989: 58].

Rothbard, who interprets Misesian entrepreneur as Knightian and justifies market economy, therefore needs to explain how the entrepreneur as uncertainty bearer can contribute to the mutual advantage of market

transaction without relying on Knightian explanation. Rothbard seems to appeal to what I called “fundamental utilitarianism.” However, how can we conclude that the Mises-Knight-Rothbard’s entrepreneur as uncertainty bearer tends to be more successful than unsuccessful by appealing to the human reason?² For Rothbard, this question on the tendency toward successful bearing of the future uncertainty would be reduced to the question of the praxeological conditions of the society: when there is a sufficient condition of free market exchange, Human Reason assures us to expect that the entrepreneurial activity as uncertainty bearing tends to be successful. Is this description of Rothbardian position appropriate? Rothbard might deny this by saying that the fundamental justification of the market is not the question of the tendency of the successful elimination of the uncertainty. Instead, it might entirely be regarded as the problem of “conditions” rather than “coordination” in which human being acts rationally.

While the issue of market coordination is related to the issue of tendency toward equilibrium, the issue of fundamental justification of the market is related to the issue of rationality of human action. Rothbard would say that the coordination problem of the market is not the issue we need to ask. In contrast, Kirzner would say that the former is the most crucial. Thus their concern and perspectives on the market economy are quite different although their normative concerns are close each other.

4. Hayek versus Kirzner

As mentioned above, Rothbard presents a theoretical contrast between Mises-Rothbard’s praxeology and Hayek-Kirzner’s non-praxeological explanation of the market process. However, there is also a crucial difference between Hayek and Kirzner in their theoretical perspectives.

In his recent development of the theory of entrepreneurship, Kirzner indicates that there are two kinds of market coordination [Kirzner 1992:171]. The first can be called as Kirznerian entrepreneurial process and the second can be called as a “self-organizing” process, which Hayek assumes.

² Kirzner describes that Mises’s entrepreneur is a superior version of Knightian entrepreneur [Kirzner 2000: 118-119].

Kirznerian entrepreneur can play its proper role in the situation where sellers who are selling their goods for low prices do not discover that they could have obtained higher prices. In this situation, Kirznerian entrepreneur can carry out its role of the market coordination because there is a room for arbitrage to get profit that has been unnoticed by sellers. The self-organizing process of the market coordination, on the other hand, works in the situation where sellers who have bit high prices do discover the additional profit that they could have obtained at lower prices. In this situation, the price will be self-corrected by sellers by way of lowering prices, and hence, the market process would be self-organized without introducing any “outsiders who are themselves neither would-be sellers nor would-be buyers, but who are able to perceive opportunities for entrepreneurial profits” [Kirzner 1973:14].

Kirzner also uses a distinction between “errors of over-pessimism” and “errors of over-optimism” in order to explain the difference of these two market processes. Errors of over-pessimism are those in which superior opportunities have been overlooked. They generate pure profit opportunities which attract Kirznerian entrepreneur. On the other hand, over-optimistic error occurs when a market participant expects to be able to complete a plan which cannot, in fact, be completed. “A buyer mistakenly plans to buy a commodity or a resource at a price so low that the item is not obtainable at the price. A seller plans to sell an item at a price so high that in fact no buyer is willing to buy at that price. This kind of error does not generate pure profit opportunities which are to be corrected through entrepreneurial alertness. Over-optimistic errors tend to be corrected by more direct market forces, calling for less creative entrepreneurial alertness” [Kirzner 1997: 43-44]. Thus Kirzner thinks that the latter process, which we call “self-organizing” or Hayekian process, requires relatively weak alertness for the entrepreneur.

Although Kirzner makes a clear distinction between situations of lower price and higher price, it would be pointed out that in the situation where sellers are selling their goods at the lower prices, there is also a room for Hayekian coordination in which sellers adjust their prices toward higher prices. Kirzner is aware of this point: He says that the unawareness of the profit due to the optimism can be in both situations of higher price and lower price to

clear the market³. This indicates that the market coordination toward equilibrium can work without Kirznerian pure entrepreneur. It works only with Hayekian self-organizing sellers who have a skill of impure entrepreneur. But this is not saying that Kirzner's insight for human ability of alertness is unimportant. To the contrary, Kirzner's insight for the alertness is incorporated to the ability of the Hayekian participant in the market: Hayekian self-organizing process incorporates an impure entrepreneurial skill which is a necessary component for the coordination of the market process.

However, while I admit the importance of the function of the Kirznerian entrepreneur, I would like to raise two issues with regard to Kirzner's explanation of the market coordination. First, he seems to assume that the price adjustment by the act of entrepreneur induces the quantity adjustment:

[T]he entrepreneurial discovery processes will tend to ensure that the price of any given good or service will tend towards equality throughout the market. ...[A]t the uniform prices so achieved, the market for each consumer good or service, and for each resource service will tend to clear. / In the course of the market movements achieved through these tendencies, not only will resource and product prices be modified as described but, more importantly, resources will be shifted continually from less important uses (as measured by the prices consumers are prepared to pay) to resources will come to be replaced by more productive technologies; and undiscovered sources of new resources will tend to be discovered. [Kirzner 1997:45-46].

Although he refers to the resource adjustment, Kirzner does not present us any explanation of how market has it tendency toward resource adjustment following his entrepreneurial activity⁴. The price differences will tend to be eroded by Kirznerian entrepreneur, but the quantity adjustment remains unexplained by his theoretical framework. Here, we need to ask a basic question for the sake of understanding the coordinative power of the market

³ "Prices that were too high will tend to be lowered; those that were too low will tend to be bid upwards" [Kirzner 1997: 45].

⁴ Inoue [1999: 44] also points out that there cannot be found any discussion on the quantity adjustment in Kirzner's theory of entrepreneur.

process. My second issue on Kirzner's explanation is that there is an important difference in definitions between the tendency toward "profit elimination" and the tendency toward "equilibrium". When, as Kirzner assumes, the entrepreneurial activity is restricted to the realm of price adjustment, profit elimination by bidding a higher price might not take us to the point that is closer to the equilibrium than the initial disequilibrium point. Without a quantity adjustment, there is no guarantee whether Kirznerian entrepreneur *per se* has an equilibrating tendency. While the concept of the "equilibration" presupposes the act of shortening the distance between initial state and equilibrium state, Kirznerian entrepreneur does not need to be alert for the sake of seeing the equilibrium price. The price that his entrepreneur bids can be overshoot the equilibrium price.

If my understanding of Kirzner's theory is correct, it becomes dubious that his pure entrepreneurial activity has a coordinative power of the market. The only thing we can say is that impure entrepreneur has its own role to coordinate the market and hence the equilibrating force of the market. Pure entrepreneur by itself, in contrast, cannot guarantee the process of market equilibration. In other words, Kirznerian pure entrepreneur always need to be combined with other market activities when we make sure of the equilibrating power of the market.

This observation, however, does not depreciate Kirzner's insight for the basic driving force of the market. In Kirzner's theoretical framework, the impure entrepreneur needs neither to be embedded in certain social settings nor to be combined with other external moments for market activities. Impure entrepreneur fully works for market coordination when the government does not impede the market at all. Hence, Kirzner's point does not lie in the question of whether his entrepreneur can become pure in the market: his point, in my understanding, is to emphasize the fundamental character of the coordinative power that is not grasped by the neoclassical concept of decision maker. It is an ability to discover an unnoticed profit opportunity with simultaneously establishing a new framework for our cognition of the market reality. "[T]he act of discovery consists in having 'undeliberately' *noticed* what was *already* costlessly knowable" [Kirzner 1997: 32]. This insight is still fundamental to understand the function of the impure entrepreneur.

Hence, although Kirznerian pure entrepreneur by itself cannot guarantee

the tendency toward equilibrium, we would lose the coordinative power of market process when we restrict the activity of pure entrepreneur, i.e. arbitrageur. The action of the pure entrepreneur gives us an additional signal of the change of prices and the signal gives an appropriate incentive to the action of the impure entrepreneur. Thus, the role of the Kirznerian entrepreneur in the market can be justified indirectly in terms of its coordinative power.

5. Rothbard-Kirzner versus Hayek-Constitutionalist

In the last section I pointed out a shared view on the role of “impure entrepreneur” between Kirzner and Hayek. However, their proposals can be quite different with regard to market policies. While Mises, Rothbard and Kirzner supports a libertarian idea of the market by appealing to their ideal conception of an “unimpeded market transaction,” Hayek and some constitutionalists such as Viktor Vanberg and James Buchanan do not support its idea since they regard that every market is constitutionally formed and hence cannot be unimpeded by constitutional settings. Let us to see the difference between them more closely.

Kirzner [1985: 122, 141] makes clear distinction between the hampered market and the unhampered market. The former is the regulated market that impedes the “smooth working of the market.” The latter is the unregulated market that is normatively acceptable. Since Kirzner makes no distinction between “regulation by commands” versus “regulation by rules,” any kinds of regulation for the market are regarded as inappropriate. There comes to be no room for a good regulation that enhances the “smoothness” of the working of the market process.

For Rothbard [1962: 71], the free society is “a society based on voluntary action, entirely *unhampered* by violence or threat of violence.” In the free market, “individuals deal with one another only peacefully and never with violence” [ibid: 765]. From this idea of the “unhampered market,” a big cartel can be warranted in the market because it does not appeal to any violent means [ibid: 570].

Thus, for Kirzner and Rothbard, the ideal condition of the “smooth

workings of the market” is to be unhampered by any regulation of the government. All the government needs to do is to eliminate the threat of violence and to protect the private property rights for market participants. However, the notions such as “violence” and “property rights” have not been clearly defined. When people become sensitive to the threat of, say, “terrorism,” the government can extend their task of regulation for free transaction in the name of security. The definition of the property rights is by no means clear as well. There is no predefined, immutable standard for what the content of “well-defined private ownership [Epstein 1986: 15]. More over, the issue of *assigning* rights, i.e. the question of “who owns what?”, and the issue of *defining* rights, i.e. the question of “what does it mean to own something?” are separable. And there are no universal criteria for these questions for assisting the unhampered market process.

The notion of “the unhampered market” does not imply the notion of a market without any rules. It needs to have rules for protecting property rights system. Kirzner points out that the “function of the market ... can be defined only in the context of a given pattern of individual rights” and its context may vary among different societies [Kirzner 1994: 105]. Hence, when we admit that the function of the market depends on a constitution of the individual rights in a cultural context, the practical applications and implications of the idea of the “unimpeded market” would be various. And it is Hayek who is sensitive this problem.

According to Hayek, the idea of market competition is justified in terms of the use of knowledge in a society. Knowledge would be tacit and dispersed among individuals. Knowledge would be particular in each time and place. Knowledge would also remain in a potential level of individual’s ability and the market competition can enhance its realization and a new ways of doing things [Hayek 1979: 190]. Hence, the best utilization of knowledge in a society depends on the way we constitute the function of the market competition. As Hayek [1976a: 115] suggests, the best way to understand the operation of the market system is to think of it as a “wealth-creating game” or a “game of catallaxy.” The idea of the wealth creation by promoting the use of knowledge is a different criterion from the idea of the “unhampered market process.” The former has a concern for the development and accumulation of human knowledge; whereas the latter has a concern for the condition of the

rational decision-making. In other words, while the former is more likely to be a heuristic approach to utilize the market functions effectively, the latter is related to the justification of the ideal market process in place of neo-classical idea of the market. The former thinks that there are some institutional settings to promote the growth of knowledge, but the latter do not dare to think its possibility.

From a Kirznerian perspective, there is no reason to deny the Hayekian conception: market as a wealth creation game. Institutional settings of property rights system are important to handle the market process. As Kirzner notes, “[i]f market outcomes, resulting from externalities, are deemed somehow unfortunate, this is seen immediately as attributable not to the failure of the market to co-ordinate with respect to the given rights system, but to the pattern of rights which the system has, rightly or wrongly, taken as its initial framework” [Kirzner 1994: 108f]. From this venue of thinking, what kinds of restrictions that the freedom of contract and the property rights system should be subject to is a matter of the “game of catallaxy,” i.e. the wealth creation game.

From the idea of the “unhampered market,” any restrictions on voluntary exchange in the market are regarded as welfare-reducing limitations. However, from the idea of a “game of catallaxy,” some institutional framework of the market can enhance the “voluntariness” in contracting and the wealth at the same time. A paradigmatic example would be a legal treatment of cartel. According to Vanberg [2001: 31], “[The] question is whether this game can be expected to be more attractive for all players involved if cartel agreements are generally prohibited, or at least not enforced, compared with how it would function in the absence of such a constraint.” Thus the idea of the game of the catallaxy allows us to reconstruct the system by taking the outcome into its consideration. In this sense, Hayekian ideal of the market system is judged with the criterion of consequentialism.

While the idea of the unhampered market gives us basic criteria for the private property system, the idea of the game of the catallaxy does not give us any clear boundaries on the definition of private property rights: the boundaries are to be clarified with reference to the question of wealth accumulation. In the game of catallaxy, the question of desirability of the regulation cannot be an issue of unrestricted versus restricted rights. It can

only be an issue of what gerrymandering of property rights are overall more beneficial, i.e. that makes the game of catallaxy more attractive for all individuals. In this way of thinking, the government can be welfare enhancing tool as a facilitator of trade by creating conditions that enable people to realize gains from voluntary co-operation [Vanberg 2001: 25, 28].

From this perspective, market competition would be able to give participants proper incentives to enhance their use of knowledge when it is embedded in appropriate rules. Competitive order needs not only to be safeguarded against anti-competitive interests, interests that seek to escape competitive constraints through private arrangements or through political means as German Ordo school emphasized, but also to be promoted toward wealth accumulation. For Hayek, it is closely connected to the idea of the development and the evolution of the extended order.

6. Kirzner and Hayek on Market Order

As we examined above, Mises and Rothbard raises no additional question for the market coordination and order beyond the ideal condition of the free market exchange. For Kirzner, however, it is important to ask whether the market has its inner tendency toward its coordination. But his normative perspective for the free market society becomes ambivalent when we interpret it from a constitutional theory of the market that focuses on a vagueness of the boundaries of property rights system. While Kirzner's theory of entrepreneur refers to the concept of "coordination," it does not necessarily appeal to the concept of the market "order" because he regards the unhampered market as an ideal situation for the market process. However, when we introduce the Hayekian idea of catallaxy, Kirzner's theory can be placed in the same venue of question: it raises a question of the market order which is related to the other normative ideas such as competition, promotion, and wealth accumulation.

The issue that I would like to raise here is in what sense the concept of market order is useful if it is possible to use at all. The answer would be that the concept of order is useful when we consider the function of the market in terms of the enhancement of the use of our potential ability toward wealth

accumulation. The concept of market order is a regulative idea that substitutes for a vague concept of “free market” which is connected with the “unhampered market” and the “property rights system.” At last, I examine Hayek’s notion of the “order” more closely so that we see the contrast with the idea of the free market society.

According to Kirzner’s clarification, Hayek’s theory of the market contains the following five ideas [Kirzner 2000: 186f]:

- (1) Order I: a specified set of institutional arrangements to construct a rational economic order. Hayek refers to a designer of a rational market order.
- (2) Order II: an orderliness of some set of activities or social arrangements, which exists at almost every stage in a society and which does not necessarily consist in the compatibility existing among independently-made individual plans. (This basic orderliness denies the image of Hobbsian disorder.)
- (3) Spontaneous order: order emerged from undesigned achievement among individuals and is greater than their individual minds can ever fully comprehend.
- (4) Coordination I: a counter intuitive possibility of spontaneous market coordination to achieve a desirable social outcome, given the conditions of motivation of self-regarding goals and the imperfectly informed agents. (This category describes the process led by Kirznerian entrepreneur.)
- (5) Coordination II: coordination as the state (or the process leading towards the state) in which the individual plans of independently-acting persons display mutual compatibility without any concern for the desirability of overall social outcome. (This corresponds what we call Hayekian process.)

Following this categorization, the concept of the order in Hayek is explicitly separated from the concept of the coordination. First, since any society has “order II,” a market with some set of regulation can be regarded as orderly as well as a free market system. Second, it is required to have a designer’s perspective of institutional arrangements when we talk about the

market order in Hayek's usage⁵. Third, and this is my point, there need be an idea of the "market order" with reference to the idea of spontaneity as to the growth of the market. The idea of the market order is separated from any criteria of market coordination. While Kirzner restricts his research to the issue of the market coordination, Hayek asks an additional question on the nature of the market order. For Kirzner, the knowledge problem of the market is the same as the coordination problem and it is described in the following sentences in Hayek's text:

The economic problem of society is ...not merely a problem of how to allocate 'given' resources – if 'given' is taken to mean given to a single mind which deliberately solves the problem set by these 'data'. It is rather a problem, of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of utilization of knowledge which is not given to anyone in its totality. [Hayek 1948: 77-78](See also Kirzner [1992: 139-179])

Kirzner transforms this knowledge problem into the following question: how can anyone show superior discovery of profit opportunity as a coordinative power where people are ignorant of their true circumstances i.e. equilibrium prices? The answer is the activity of entrepreneur with sufficient incentive to utilize his alertness in a free market society. However, Hayek's knowledge problem can be formulated in another way: what kind of economic system is good to promote the discovery of the unknown and therefore to utilize the human potential for every participant? This formulation is beyond the economic issue of coordination which focuses only on the activity of eliminating profit opportunity. The following quotation will show that the Hayekian knowledge problem as a problem of market order:

The problem is precisely how to extend the span of our utilization of resources beyond the span of the control of any one mind; and, therefore, how to dispense with the need of conscious control and how to provide

⁵ Hayek's Individualism and Economic Order [1948] refers to the order in this sense.

inducements which will make the individuals do the desirable things without anyone having to tell them what to do. [Hayek 1948: 88]

The scope of this question is beyond the issue of market coordination. It assumes that there are a perspective of a designer of institutional arrangements and a concern for making conditions for the growth of the economy. In contrast to the idea of the free market society, there is an idea of what I call “spontaneitism” which promotes the best utilization of the potential human resources without any transcendental operation. The idea of the spontaneous order as an economic order directs toward a system with an immanent operation to utilize human resources. As we examined, the idea of wealth creation, an effective competition, and a game of catallaxy need to be taken into consideration when we ask the nature of the market order⁶.

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⁶ Some recent Austrian research on theme of human resource and its growth would be placed in this conception of the market order. For example, see David Harper, 1996, Entrepreneurship and the Market Process: An Enquiry into the Growth of Knowledge, New York, Routledge. Peter Lewin, 1999, Capital in Disequilibrium, New York, Routledge, 1999. Shelby D. Hunt, 2000, A General Theory of Competition, California, Sage Publications.

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