Senior Seminar on The Wealth and Well-Being of Nations:

Each year, seniors in the department of economics and management participate in a semester-long course that is built around the ideas and influence of that year’s Upton Scholar. By the time the Upton Scholar arrives in October, students will have read several of his or her books and research by other scholars that has been influenced by these writings. This advanced preparation provides students the rare opportunity to engage with a leading intellectual figure on a substantive and scholarly level.

Endowed Student Internship Awards:

A portion of the Miller Upton Memorial Endowments supports exceptional students pursuing high-impact internship experiences. Students are encouraged to pursue internships with for-profit firms and non-profit research organizations dedicated to advancing the wealth and well-being of nations.

Charles G. Koch Student Research Colloquium and Speaker Series:

With generous support from the Charles G. Koch Charitable Foundation, the department has initiated a research colloquium that gives students the opportunity to read and discuss seminal articles aimed at deepening their understanding of the market process. Students also develop original analysis that applies economic ideas to novel contexts. Colloquium participants receive close mentoring as they craft an article with the eventual goal of publication in a newspaper, magazine, or academic journal. The themes of the research colloquium and annual forum are supported with a monthly speaker series featuring the next generation of scholars working on questions central to our understanding of the nature and causes of wealth and well-being.

Annual Proceedings of The Wealth and Well-Being of Nations:

The keynote address presented by the Upton Scholar is an important contribution to the public discourse on the nature and causes of wealth and well-being. Further, the annual forum includes presentations by noted scholars who expand upon or challenge the work of the Upton Scholar. These presentations are assembled in the Annual Proceedings of the Wealth and Well-Being of Nations, which serves as an important intellectual resource for students, alumni, and leaders within higher education.
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Introduction

Emily Chamlee-Wright

As the Elbert Neese Professor of Economics, it is my privilege to introduce the third Annual Proceedings of the Wealth and Well-Being of Nations.

Under the banner of the Miller Upton Programs, The Department of Economics at Beloit College has developed an ambitious initiative to advance understanding of the ideas and institutions necessary for widespread prosperity and human development. The centerpiece of these programs is the annual Wealth and Well-Being of Nations: a Forum in Honor of Miller Upton. Every fall, the Upton Forum brings to Beloit College a distinguished, internationally recognized scholar who works within the classical liberal tradition. The Upton Scholar engages with students, faculty, alumni, and civic leaders in an informed dialogue around the nature and causes of wealth and well-being. In 2010, we were honored to feature Israel Kirzner, Emeritus Professor of Economics at New York University as the third Upton Scholar.

Alongside our Upton Scholar, we featured leading scholars whose work complements the work of Professor Kirzner. We assemble this cadre of scholars to demonstrate that the intellectual enterprise of understanding the nature and causes of wealth and well-being is an ongoing project. The essays collected in this volume capture in written form many of the ideas exchanged, challenges posed, and questions considered during the Upton Forum and over the course of the academic year.

Before introducing the substance of the contributions made within this volume, let me say a few words about the man for whom the forum is named. R. Miller Upton was the sixth President of Beloit College, from 1954-1975. A nationally recognized leader in higher education, President Upton was known to harbor two intellectual passions. The first was a steadfast commitment to the liberal arts. He believed that the small residential liberal arts college was the ideal
place to engage the “great questions,” as it is here that students are expected to acquire the intellectual habits necessary for critical thinking and open civil discourse. His second passion was for the ideals of the liberal society: political freedom, the rule of law, and the promotion of peace and prosperity through the voluntary exchange of goods, services, and ideas. He understood that transforming the ideals of liberal democracy into real institutions was at the heart of increasing the wealth and well-being of nations and peoples. We believe that the Upton Forum represents a confluence where these enduring passions meet.

*Entrepreneurship as the Driving Force of the Market Process*

As a leading figure in the Austrian school of economics, Israel Kirzner has devoted much of his career to clarifying the central role entrepreneurship plays as a driving force in the market process. Here I will sketch, in ever so brief a fashion, the arc of ideas that influenced Kirzner as a young scholar and how he wove those threads of intellectual discourse to advance our understanding of entrepreneurship and the nature of the market process.

I will focus in particular on two of Kirzner’s influences: Ludwig von Mises and F.A. Hayek, both contributors to the great Socialist Calculation Debate in the 1920s and 30s. In that debate, both Mises and Hayek called our attention to the cognitive role that markets play. Comprehensive socialist planning would fail, Mises (1922, 1949) argued, not only because of the inherent incentive problems we create when we eliminate market reward and discipline, but also because we eliminate the principal means by which individuals discover the best use of resources. It is only in a context of private ownership that meaningful prices emerge. Without scarcity indicating prices, Mises argued, there is no way to discover what the best mix of resources would be for any given project that would leave the maximum resources left over for other pursuits. This means that no matter how well-intentioned our socialist planners might be, without market prices, they have no economically meaningful guides to action.

Hayek (1935, 1940, 1948, 1988) advanced this argument further by pointing out that the economic knowledge required to foster widespread social coordination is fundamentally dispersed across countless market participants. To Hayek, the fundamental economic problem is a knowledge problem. How, given the dispersed nature of economic knowledge, do we ever come to know the relevant information we need to successfully carry out our individual plans? Given the fact that the full body of relevant knowledge contained within the economic system
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is never given to a single mind in its totality, how does a complex society such as ours achieve widespread social coordination? The answer, Hayek argued, was the mutual adjustment that occurs when individuals act upon price signals and learn from their experience. Another way to put this is that markets not only allow individuals to learn, they allow societies to learn—to become, in essence, smarter than the individuals who make it up.

The cognitive role that markets play is a central theme within the Austrian school—that market signals provide the means of discovering the best use of resources and drive human progress. But who is the agent of this discovery? Both Mises and Hayek recognized that the entrepreneur played the critical role of driving the discovery process, but understanding the nature and role of entrepreneurship required further development. This is where Israel Kirzner steps in.

Kirzner (1973, 1979) develops the theory of the “pure entrepreneur,” an analytical construct that invites us to imagine the entrepreneur as possessing no assets or resources, not even the power to deploy labor. Kirzner’s pure entrepreneur does, however, possess the ability to notice gaps—gaps in prices for, say, the same good in two different markets, or the same good produced by different methods, or the same resources configured in different ways. The point is not to describe a particular kind of person we are calling “the entrepreneur” but to describe a category of human action. It is entrepreneurial alertness to price differences that allows us to explain how prices, quantities and qualities of inputs and outputs change, and how the plans of countless market participants that fail to align in one moment tend to move toward greater coordination over time.

Kirzner’s insights became part of the defense of market coordination against heavy handed state intervention, but his principal target of critique were his fellow economists, most of whom considered themselves to be describing and in some sense defending the competitive market. Neoclassical presentations of competition tell a story of market perfection in which profits are instantaneously seized and efficient equilibrium obtained. While such depictions of perfect competition are internally consistent, they are irrelevant, Kirzner argues, if what we want to understand is the nature of the market process. Such models begin with the assumption that everyone possesses perfect information. But in such a world, the entrepreneurial role is completely eliminated. The world presents us with profit opportunities because it is a world in which ignorance exists, and given the dispersed nature of economic knowledge, this state of ignorance is unavoidable. But if we assume away ignorance, we also assume away the need for a discovery pro-
cess. We assume away the most interesting question the market order presents: how, given the fact that we are not perfectly informed, and never can become so, does market coordination happen?

In contrast to standard economic theory, Kirzner begins his analysis by understanding the world as it is—mired in ignorance. It is this ignorance, Kirzner argues, that triggers the entrepreneurial search for profits. In turn, it is this search for profits that renders market capitalism a process of systematic discovery. Through a lifetime of scholarly work, Kirzner examines the role entrepreneurial discovery plays in coordinating the diverse plans of market participants and the institutional rules of the social order that are required for entrepreneurship to foster widespread wealth and well-being.

Of course, the questions do not end here. For example, though we can attribute increasing prosperity to entrepreneurial discovery, the question remains as to whether that prosperity is built upon a less-than-virtuous human trait. In the 2010 June and Edgar Martin Memorial Lecture, the highpoint of the Upton Forum, Kirzner posed a question that lies at the heart of the Miller Upton Programs: Is greed the source of prosperity? Though other scholars have examined the morality of capitalism, none have tied it directly to a theory of entrepreneurship. Kirzner argues that the critical motivation that drives entrepreneurial decision-making is purposefulness. It is purposefulness, not greed that triggers entrepreneurial discovery, market coordination, and economic prosperity. Even in a world in which greed was entirely absent—a world populated by saintly characters driven solely to serve others—market discovery would unfold and prosperity would emerge. Though our saintly characters are without greed, they nonetheless have purpose, and it is this purposefulness that triggers entrepreneurship and the market coordination that follows.

The argument that Kirzner makes in the essay featured in this volume exemplifies the quality and character of his scholarship and teaching. Over the course of reading his work and during his time at Beloit, our students experienced and came to appreciate what a careful scholar he is. And by “careful” I mean that he handles ideas with care and precision. Every idea is built upon a foundation, which in turn, leads to the next idea. But his careful precision does not preclude boldness. In fact, it is this care that makes intellectual boldness possible. It is the equal measures of care and boldness, I believe, that is the source of Professor Kirzner’s significant influence. It is this rare combination that makes him a teacher of the highest order: a teacher of teachers. And it is this combination of
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The introduction discusses the selection of Upton Scholar and the importance of entrepreneurship in explaining economic change since 1800. It highlights the contributions of scholars like Peter Boettke and Frederic Sautet in understanding the influence of Ludwig von Mises on Kirzner's work. Deirdre McCloskey's essay on Kirznerian economic history is also discussed, emphasizing the significance of entrepreneurial creativity and discovery in economic change.

In their essay, Adam Martin explores the gains from trade through entrepreneurial alertness and the extent of the market. He ties Kirzner's insights to classical economics literature, arguing that specialization and division of knowledge resulting from entrepreneurship explains most of the mutual gains experienced through trade.

Finally, Storr and John's essay addresses criticisms of Kirzner's theory of entrepreneurship, arguing that it abstracts away from psychological characteristics of real-world entrepreneurs.
that rather than limiting a deeper understanding of the psychological characteristics that shape entrepreneurship, Kirzner’s theory of entrepreneurship makes such inquiry possible.

Roger Koppl returns us to the question of what, exactly, an entrepreneur is, or in this case, what an entrepreneur is not. When considering entrepreneurs, most of us regard them, at least the successful ones, as “experts” of one kind or another. In his essay “Entrepreneurs are not Experts,” Koppl challenges this accepted wisdom that conflates entrepreneurship with expertise. Rather than diminishing the importance of entrepreneurship, Koppl argues, the fact that entrepreneurs are not experts underscores the critical discovery role that entrepreneurs play in the market process, a role, he argues, that cannot be replaced by “experts.”

The final three essays focus on the social institutions—the rules of the game—that govern human interaction. Peter Nencka’s (’11) essay, “Explaining the Rise of Institutions: Toward a Kirznerian Theory of Repeated Games,” examines the conditions under which social institutions evolve and remain stable. Drawing upon the work of game theorist Ken Binmore and Austrian scholars such as Kirzner and Storr, he proposes a basic framework for thinking about this question that bridges the game theory and Austrian economics literatures.

In his essay “Are Current Economic Activities Undermining Future Prosperity?” Randall Holcombe applies the concept of entrepreneurial discovery to the question of whether current prosperity is undermining long-term sustainability by depleting natural resources. Holcombe argues that, if the rules of the game are in place such that entrepreneurial discovery can unfold, the same entrepreneurial drive to innovate that generated the increasing prosperity in the first place will generate the solutions needed to address resource depletion concerns in the future.

Finally, in their essay “Entrepreneurial Volatility: A Cross Country Study,” José Ernesto Amorós, Oscar Cristi, and Maria Minniti examine the role that government policy plays in determining the decision to engage in entrepreneurial behavior, even when few or no alternative employment options are available. Using data from 49 heterogeneous countries over the period 2001-2008, they find that the quality and size of government contribute to the volatility of necessity-driven entrepreneurship. In other words, they find that perverse public policy has a disproportionately negative impact on entrepreneurs who have few if any alternative sources of income.
With Many Thanks

On behalf of Jeff Adams, the Allen-Bradley Professor of Economics and the other members of the Department of Economics, I want to extend our thanks to everyone who played a part in making the 2010 Upton Forum and associated programs a success, including the many scholars and alumni professionals who presented during the forum and over the academic year. In addition to the contributors to this volume, I would like to thank David Luck, CEO and president of ABC Supply Co. and alumni Robert Atwell (’80), founder and CEO of Nicolet National Bank, and Stopher Bartol (’88), founder and CEO of Legacy.com for their participation on a panel honoring the late Ken Hendricks for his legacy of entrepreneurial excellence. Further, I wish to thank Merton (Marty) Finkler, the John R. Kimberly Distinguished Professor at Lawrence University, Robyne Hart, director of the Business, Entrepreneurship & Society Program at the Associated Colleges of the Midwest, Elizabeth (Betsy) Gatewood, director of the Office of Entrepreneurship and the Liberal Arts at Wake Forest University, and Beloit College alumnus and Professor of Economics Jerry Gustafson (’63) for their participation on a panel discussing the role of entrepreneurship education in the liberal arts.

The students in my 2010 Senior Seminar on the Wealth and Well-Being of Nations were also integral to the success of the forum. Their willingness to dive deeply into discussions of classical and contemporary works is the lifeblood of an intellectual enterprise such as this. And a special thanks goes to Jennifer Kodl, Program Assistant to the Upton Programs and Managing Editor of this volume for her tireless dedication to excellence and her generous spirit.

By underwriting the first three years of the Upton Forum, the Lynde and Harry Bradley Foundation has played a critical role in ensuring the early success of the program, by allowing us to feature intellectual luminaries such as Douglass North, Hernando de Soto, and Israel Kirzner. Further, this early support gave Bill Fitzgerald (’86) and Bob Virgil (’56), co-chairs of the campaign to endow the Miller Upton Programs, the time they needed to secure the donor support that would ensure its long-term viability and vitality. Indeed, that support did follow, and this last year has been marked by tremendous success. Thanks to a generous gift from the June and Edgar Martin Estate, Professor Kirzner’s keynote address was the first under the banner of the June and Edgar Martin Memorial Lecture. Moreover, in February 2011, Bill Fitzgerald announced to a large and festive
crowd of students, alumni, faculty, and staff gathered for the 25th celebration of “Econ Day” in Chicago, the successful completion of the fundraising effort to endow the Miller Upton Programs. The gift that put us “over the top” was made by dozens of alumni, faculty, and staff in honor of Jeff Adams, for his steadfast commitment to creating opportunities for his students.

When we launched this effort, our goal was to create a suite of programs that would foster the kind of intense and engaged inquiry that leads to the development of liberally educated men and women. A belief in the emancipating power of critical thinking, an unapologetic passion for ideas, and a deep respect for open inquiry in which the answers are not preordained, have been our guiding principles. If we were to honor Miller’s legacy, anything less would have been unacceptable. The financial support provided by alumni, friends, and charitable foundations has allowed us to live up to the promise of those principles and has ensured that the Miller Upton Programs will serve Beloit College students and the broader community of intellectually engaged citizens for many generations to come.

References

