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The Discovery and Interpretation of Profit Opportunities: Culture and the Kirznerian Entrepreneur

It is beginning to be evident that the vast literature on growth and development conceals a yawning gap. This void refers to an understanding of the role of the entrepreneur in economic development, both at the theoretical level and at the level of past and prospective economic history...

In the literature dealing more narrowly with growth models, this hiatus is almost complete and is hardly surprising in view of its predominant concern with macroeconomic relationships. In contrast, the literature dealing with development proper gives some attention to entrepreneurship, although little effort has been devoted to formulating a clear theoretical understanding of the entrepreneurial role.

—Israel Kirzner, Perception, Opportunity, and Profit

There is an increasing recognition that to understand economic development we need an adequate theory of entrepreneurship. The entrepreneur is the driving force of economic change, bringing innovation, creativity, and coordination to the economy. Centrally planned economies are widely thought to have failed, at least in part, because they left little scope for the entrepreneurial process. In the field of economic development, attention is shifting from attempts to engineer economic improvements from the top down to attempts to design institutions that enable entrepreneurship to flourish and produce development from the bottom up. A theory of entrepreneurship should help us identify the conditions—economic, political, legal, and cultural—that enhance decentralized developmental processes.
Social scientists in general, and economists in particular, often refer to entrepreneurship in a manner that suggests that culture has little to do with it. Indeed, mainstream social science has, with the notable exception of anthropology, largely ignored culture not only as it might pertain to entrepreneurship but also as it might pertain to any other aspect of society. Political scientists, sociologists, and economists typically depict the social process as a causal mechanism, rather than as a means of establishing meaningful human discourse and understanding. The methodological task of the social scientist is understood to be discerning regularities in objective patterns of change but not coming to terms with what these changes mean to human agents or how this meaning contributes to the causes of change. Social scientists see culture in general as a matter for the humanities, not for the social sciences.

To the extent that social scientific research on entrepreneurship takes culture into account at all, such research usually seeks only to identify those cultural groups whose individual members have greater than average entrepreneurial traits. Entrepreneurship is in this case being treated as a psychological attribute of individual people. It is the distribution of individual psychological traits within populations categorized by culture, rather than features of the culture as a whole, that are being examined. We all know, for example, that the overseas Chinese are very entrepreneurial, but we do not seem to know much about why they are. To be sure, even finding such culturally specific patterns is an important contribution, because the patterns may suggest possibilities for answering the "why" question. The social sciences, however, do not appear to be making much progress on that crucial explanatory front. In the social sciences, culture is little more than an aggregative classification for grouping individuals, not a substantive theoretical notion in its own right.

For the purposes of this chapter, culture is to be understood broadly as the complex of meanings that allows us to comprehend human action: it is the background context that renders purposeful action intelligible. Culture is the language in which past events are interpreted, future circumstances are anticipated, and plans of action are formulated. Although not a language in the sense of a static set of words and grammatical rules, culture is a discourse. This view has been most eloquently articulated in Hans-Georg Gadamer’s philosophy of hermeneutics. Language, in this view, is a continually evolving
conversation, an open-ended communicative process. As such it is a complex phenomenon in its own right, which, if it is to be taken seriously, requires explicit theoretical attention by the social scientist.\(^3\)

Unfortunately, the scholars in the humanities who seem to have taken culture more seriously have had little to say about its processual nature. One reason the cultural side of entrepreneurship has been neglected is that anthropologists, who have examined culture more thoroughly than anyone else have generally restricted themselves to statics rather than dynamics. Researchers have concentrated on getting a snapshot of a cultural pattern already in place, rather than understanding the circumstances that bring about change. Neither the ways culture shapes developments in economic, political, or social institutions, nor the ways those institutions influence culture, nor the ways culture reshapes itself, leading to different cultural patterns in the future, have been as well researched as the various cultural "stills" have been. In other words, the study of the relationship between culture and entrepreneurship demands working with both meaning and economic change, whereas the way disciplinary divisions have evolved, few researchers are capable of handling both categories together.\(^4\)

Perhaps more than other social scientists, economists have failed to leave room for meaning and have not done well with change either. Even though some economists claim to study causal change, their methodological approach tends to neglect the radical change generally thought to be involved in entrepreneurship. Change usually appears in economists' models only as deterministic tendencies toward a fixed equilibrium, like the movements of a clockwork mechanism, not as a truly creative process. Thus economists usually explain entrepreneurial action as maximizing an objective function according to given constraints. To act entrepreneurially is simply to take advantage of concrete profit opportunities neglected by others. Success is a matter of who takes the initiative, of who is alert and exploits the gains that are "out there" to be found in the objective situation. Profit opportunities are conceived as quantitative facts that are strictly dictated by the measurable discrepancy between costs and revenues. Culture, in this view, merely shapes what kinds of goods the society happens to prefer, the subjective meaning that goods have to people, not the objective economic circumstances and causal processes with which economic science is concerned. Culture is seen to pertain to the underlying
conditions that precede the economic process that entrepreneurship propels, not to the process itself.

This chapter clarifies some aspects of the entrepreneurial process and argues that culture has everything to do with it. Entrepreneurship necessarily takes place within culture, it is utterly shaped by culture, and it fundamentally consists in interpreting and influencing culture. Consequently, the social scientist can understand it only if he is willing to immerse himself in the cultural context in which the entrepreneurial process occurs.

The purpose here is not to develop a whole theory of entrepreneurship as a cultural process, but to sketch some of the main elements such a theory would need. Two properties of entrepreneurship that need to be accounted for better are connoted by the notions of "discovery" and "interpretation." Discovery suggests an element of radical change, a surprising find, an unanticipated break with past patterns. In discussions of economic development, entrepreneurship entails a capacity to introduce new products, new production methods, new marketing strategies—in general, things not already contained in the previous situation. Entrepreneurship should include genuine novelty and creativity and should not be rendered as a mechanical search for pre-existing profit opportunities.

Interpretation suggests the point that the profit opportunities entrepreneurs discover are not a matter of objective observations of quantities, but a matter of perspectival interpretation, a discerning of the intersubjective meaning of a qualitative situation. Profits are not measured; they are "read." Entrepreneurship, I argue, is primarily a cultural process. The seeing of profit opportunities is a matter of cultural interpretation. And like any other interpretation, this reading of profit opportunities necessarily takes place within a larger context of meaning, against a background of discursive practices, a culture. That is to say, entrepreneurship is not so much the achievement of the isolated maverick who finds objective profits others overlooked as it is of the culturally embedded participant who picks up the gist of a conversation.

The words "discovery" and "interpretation" also have connotations that pull in opposite, undesirable directions, which I would like to try to avoid partly by taking them together. To some people "discovery" suggests that the thing to be discovered is already there before the discovery process begins, that the process merely "uncovers"
something latent in the objective circumstances. And to many, "interpretation" suggests an arbitrariness, as in the phrase "that is just a matter of interpretation." I believe that proper theory of entrepreneurship needs to steer between the rigid objectivism of seeing all change as latent in previous circumstances and the flaccid relativism of seeing change as utterly arbitrary. The objectivistic extreme, toward which most mainstream economics tends, reduces change to mere mechanistic dynamics. The relativistic extreme, toward which some leading critics of mainstream economics are thought to tend, seems to make change unintelligible. What is needed is a theory of entrepreneurial change that makes it intelligible without reducing it to predetermined mechanism.

One school of economics, the so-called market-process or Austrian school, has partially overcome these difficulties. Its critique of mainstream economics can serve as a useful point of departure for my own discussion. The work of Ludwig von Mises, Friedrich A. Hayek, and others provides a promising alternative to mainstream economics for both aspects of entrepreneurship the mainstream has neglected. In von Mises's insistence on the principle he calls "subjectivism," meaning is made central to economic theorizing. In Hayek's notion of "spontaneous order" the idea of radical change is incorporated into a theory of nondeterministic evolutionary processes, and in his latest book he applies this spontaneous order approach to culture. Here, I believe, are the building blocks for a substantive theory of the cultural dimension of entrepreneurship.

Of all the contributors to the market-process school, Israel Kirzner has undoubtedly had the most to say about the nature of entrepreneurship. His work elaborates on the interpretive aspect of von Mises as well as the discovery aspect of Hayek and is especially helpful in connecting them together. Although I believe his work is the best in economics on the subject, I argue that as it stands it does not adequately account for culture.

Maximizing and the Kirznerian Critique

A market consisting exclusively of economizing, maximizing individuals does not generate the market process we seek to understand. For the market process to emerge, we require in addition an element which is itself not comprehensible
within the narrow conceptual limits of economizing behavior. This element in the market . . . is best identified as entrepreneurship.

—Israel Kirzner, Competition and Entrepreneurship

Building on the strengths of his mentors, von Mises and Hayek, Kirzner expands on the implications of their economics for entrepreneurial processes. Under the influence of von Mises's methodological principle of subjectivism, Kirzner's theory emphasizes the importance of the interpretive perspective of the human actor. Action is meaningful only in relation to the purposes, plans, and expectations of the actor. The actor's objective circumstances are not important in themselves, but the specific opportunities and constraints he perceives are. Action, Kirzner says, is not a direct confrontation with objective reality itself but always takes place within an interpretive framework.8

Under the influence of Hayek's work on spontaneous order, Kirzner's theory stresses entrepreneurial competition as a discovery procedure, not a predetermined mechanism. The competitive process works through a continuous, multidirectional, and rivalrous tugging and pulling of separate minds and actions, thereby generating an overall order greater than can be comprehended by its participating individuals. In this sense, the process is recognized to be a radically social one, fundamentally dependent on the free interplay of the individuals but not reducible to them. The function of such competition is to disclose information that cannot be obtained in any other way.9

Kirzner locates the difficulty mainstream economics faces in its fundamental notion of individual choice as a matter of "maximizing." The favorite theoretical device of economists is the idea of the maximization of a given goal subject to given constraints. Scarce means are described as being deliberately deployed to yield a maximum in regard to predetermined ends.

Mainstream economics typically deploys the maximizing idea on two levels, the individual choice level, where what is maximized is called utility, and the market level, where what is maximized is wealth. For the individual, his preferences, objective opportunities, and constraints are taken as the inputs, and the analysis focuses on the individual's choice as a solution to this maximization problem (this is sometimes called the economics of Robinson Crusoe). Economists contend that this mental experiment provides a general theory of human action, which can serve as a basis for looking at the specific situations
of action within market contexts. Human action in general can be interpreted as attempts by individuals to exchange one state of affairs for another, whether they are making exchanges with nature or with one another. The innovative aspect of action can then be theoretically isolated as individual entrepreneurship. "Psychic profit" is the name economists give to the perceived gain the entrepreneur reaps when he exploits an opportunity.

Such individual mental experiments of Robinson Crusoe economics are then combined into a "market experiment," where the hypothetical choices of the various individuals are the inputs and an equilibrium solution, a pattern of mutually compatible choices, is taken as the output. Parallel to psychic profit on the individual level is money profit on the market level. In this way the analysis focuses in turn on the way preferences interact with objective circumstances to yield individual choices and then on the way these choices interact with one another to yield a social outcome.  

Kirzner's theory also proceeds on these two levels, so that he identifies what he calls Crusoe entrepreneurship as an aspect of individual choice that eludes the maximizing framework, and what he calls market entrepreneurship as an aspect of social situations that eludes equilibrium analysis. The difficulty at the individual level, Kirzner argues, is not with the maximizing notion itself but with the crucial questions it begs when it takes goals and constraints as given. Human action encompasses more than the mechanical performance of maximization exercises within given choice frameworks; there is also the process by which actors develop those frameworks. Likewise, the problem with treating the interplay of choices in the marketplace as an attempt to find an equilibrium solution involving complete mutual coordination is not, Kirzner says, a problem with the equilibrium concept itself. The difficulty is that equilibrium analysis leaves out the process by which a degree of mutual coordination is achieved. Mainstream economics, according to Kirzner, is not so much wrong as simply incomplete, and on both the individual and the market levels it needs to add a theory of entrepreneurship.

Economists' fondness for maximizing and equilibrium lead them to try to subsume entrepreneurship under these concepts. When Crusoe, for example, makes the entrepreneurial discovery of how to use vine to produce a fishnet, mainstream economics treats it as a deliberate allocation of his scarce attention to the discovery of hitherto unknown
production processes. In a broader social context, the arbitrage entrepreneur who discovers an opportunity to buy low in one market and sell high in another is treated as allocating his entrepreneurial attention to this discovery. Entrepreneurship, then, is a scarce resource like any other, which needs to be deployed economically.

Kirzner argues that the attempt to treat entrepreneurship just like any other scarce resource is a mistake. He suggests the idea of "alertness" to new opportunities as something that cannot be subsumed within a given maximizing problem. To treat the discovery of an arbitrage opportunity as itself a maximizing problem presupposes that the opportunity was already within the entrepreneur's choice framework, in which case it was not in need of discovery in the first place. As Kirzner puts it, entrepreneurial alertness "is not an ingredient to be deployed in decision making; it is rather something in which the decision itself is embedded and without which it would be unthinkable." He goes on to say:

If an entrepreneur's discovery of a lucrative arbitrage opportunity galvanizes him into immediate action to capture the perceived gain, it will not do to describe the situation as one in which the entrepreneur has "decided" to use his alertness to capture this gain. He has not "deployed" his hunch for a specific purpose; rather, his hunch has propelled him to make his entrepreneurial purchase and sale. The entrepreneur never sees his hunches as potential inputs about which he must decide whether they are to be used.\(^{13}\)

Thus Kirzner argues that there is something primordial about entrepreneurial discovery, something that involves the creation of a choice framework, so that it cannot be treated as itself a consequence of maximizing within that framework. Important policy implications follow from the primordial nature of entrepreneurial discovery. If discovery is not simply a scarce resource that can be rationally allocated to predefined goals, then policies designed to enhance entrepreneurship need to recognize that fact. As Kirzner has pointed out, discovery cannot be centrally engineered; it can only be cultivated by setting in place conditions in which the decentralized, entrepreneurial process can be expected to flourish.\(^{14}\)

The approach to discovery Kirzner defends explicitly strives to steer between the two hazards I referred to above as objectivism and relativism. Kirzner takes T. W. Schultz, the famous development
economist, as an example of the extreme that makes the entrepreneur’s action purely responsive to prior circumstances, leaving no room for true novelty. He takes G. L. S. Shackle, the great critic of mainstream economics, as an example of the other extreme, which makes the entrepreneur’s action purely initiatory, leaving no room for any intelligible systematic connectedness with the previous circumstances:

The one view sees the entrepreneur as responding systematically and frictionlessly to the conditions of the market, with pure entrepreneurial profit the smoothly corresponding reward that these market conditions require and make possible. From this perspective entrepreneurship is “called forth” systematically, if not quite predictably, by these market conditions. . . . The second view sees entrepreneurship not as responding to external market conditions, but as independently and spontaneously injecting new elements into those conditions, in a manner totally unpredictable from and wholly undetermined by existing circumstances.  

The hazards have, I believe, been appropriately identified by Kirzner here, even if we may not completely agree with his interpretations of Schultz and Shackle. Navigating between the hazards is particularly difficult because of the prevailing notions in economics about causal explanation. To many economists, explanations that are not fully mechanistic are necessarily unintelligible. Indeed, in the next section I suggest that Kirzner’s theory has not completely avoided these hazards. The general approach to intelligible causation arising from the modern market-process school does, I think, offer a way to avoid these hazards by making room for what I have called the discovery and interpretation aspects of entrepreneurship.

To me, the greatest strength of Kirzner’s contribution lies not only in making room for discovery and interpretation, but in linking them together. According to mainstream economics, individual choice takes place within a given interpretation of opportunities and constraints. Discovery for Kirzner necessitates the transcending of the prior interpretive framework and the emergence of a new one. Thus, Crusoe interprets his world in a fundamentally different way after he discovers the possibility of producing fishnet out of vine. Where before he had seen vine only as an obstacle, as something to avoid getting tangled up in, he now sees it as an opportunity to make psychic profits. As phenomenological philosophers put the point, we do not see an
objective thing; we always see something as a certain kind of thing. The vine seen as an obstacle is a radically different kind of thing from the vine seen as a possible fishnet. "Seeing," then, is itself interpreting.

Similarly, in the social context the arbitrageur interprets the world in a fundamentally different way after he has discovered the price discrepancy others had overlooked. The alert arbitrageur sees prices others consider of no particular interest as an opportunity to make money profits. According to Kirzner’s subjectivist approach, then, human action has to be understood as something that is interpreted from a particular perspective. Discovery amounts to a shift in such perspectives, a fundamental change in the way the opportunities and constraints are seen.

Limitations of Kirzner’s Theory of the Entrepreneur

Although maximizing is . . . a part of market process theory, it is not the fundamental notion. Human action is. Human action is partly guided by maximizing, but it is also guided by other mental processes. Alertness, creativity, and judgment also influence what we do. The primary importance of action to economic theory is that it sets in motion a market process.

—Jack High, “Alertness and Judgment”

If Kirzner benefits from the strengths of his teachers, von Mises and Hayek, he has also inherited some of their apparent shortcomings. Although Hayek’s contribution points toward a nonmechanistic rendering of discovery processes, most of his work in economics ties the process to the notion of equilibrium, which appears to keep it within a mechanistic framework.17 Whereas mainstream economics is preoccupied with states of equilibrium, Hayek sometimes seems to be only drawing attention to the systematic tendencies by which equilibrium is achieved. As Hayek’s own later work on spontaneous order shows, though, this equilibration approach fundamentally depends on a strict distinction between the data, usually said to be tastes and resources, and the entrepreneurial process, which systematically pushes the economy toward the equilibrium. Changes in the data, which are thought to exhibit no systematic patterns, are disequilibrating, in the sense that they redefine the equilibrium toward which the economy tends. Only in his more recent work—and primarily in the context of law and culture as spontaneous orders, rather than in the context of economic questions—has Hayek decisively moved beyond the
equilibrium style of thinking. This more recent work understands spontaneous orders as open-ended and genuinely creative evolutionary processes, rather than mechanisms that focus on a predetermined end state.

Kirzner has not been willing to follow some of Hayek's extensions of spontaneous order theory to nonmarket phenomena, clinging to Hayek's earlier position that entrepreneurship is a strictly equilibrating process. Discovery, for Kirzner, brings about a systematic tendency toward an equilibrium, even though long before that equilibrium is reached, the data are bound to change, impelling the market away from that equilibrium. Even when talking specifically about grasping future opportunities, Kirzner insists on treating them as equilibrating, as in some sense finding their way toward a pre-existing equilibrium. Although this is an attempt to deal with radical change, talking about grasping opportunities that are already "out there" obscures the genuinely creative element of entrepreneurship. Despite his warning that Schultz's approach reduces entrepreneurial action to a purely responsive role, Kirzner's theory also seems to treat the entrepreneur's action as something "called forth" by prior circumstances. Entrepreneurship appears to be a passive reaction to the equilibrium dictated by the data. A number of critics have charged that Kirzner's theory falls into the very problem he has identified in mainstream economics, ultimately leaving no room for genuine novelty, for truly creative change.

Although von Mises's economics leans more toward an interpretive orientation than can be found in mainstream economics, von Mises was not willing or able to go all the way to a fully interpretive approach. Kirzner too seems unwilling to commit himself fully to an interpretive economics. Part of the difficulty, I believe, is their use of the Robinson Crusoe starting point, an issue to which I will return briefly at the conclusion. Much of the problem with Kirzner's theory of the entrepreneur, however, stems from his unfortunate selection of illustrative examples, which seriously distorts his rendering of the interpretive dimension. Although the subjectivism Kirzner inherits from von Mises is perhaps reconcilable with a fully interpretive orientation to entrepreneurship, the examples consistently undercut his argument.

The example par excellence of Kirzner's theory is the pure arbitrageur who simply notices a profit opportunity. By making this special case stand for entrepreneurship in general, Kirzner makes alertness the "essence" of entrepreneurial action. The theory has come under criticism by other market-process economists on the grounds that
alertness in itself is insufficient to cover all the aspects of entrepreneurship that maximizing leaves out. As Jack High argues, creativity and judgment are also involved in entrepreneurship. I would add only that a crucial component of judgment and creativity is interpretation. The arbitrageur immediately "sees" the chance to buy low and sell high. The case is misleading in that the interpretation is trivial and has already taken place. Kirzner likens the arbitrageur's discovery of profit to finding a twenty-dollar bill on the beach. This example reinforces the impression of profit that one gets from mainstream economics, that it is an objective "find" that does not require interpretation. Most acts of entrepreneurship are not like an isolated individual finding things on beaches; they require efforts of the creative imagination, skillful judgments of future cost and revenue possibilities, and an ability to read the significance of complex social situations.

The Kirznerian entrepreneur "sees" psychic or money profits—he notices them—but he does not seem to have to read them. He uncovers unambiguous opportunities to improve his situation that others have simply failed to notice, as if fixed collections of things called profits were lying around and certain individuals were just more alert than others in finding them. Being more alert seems to be simply a matter of opening one's eyes to see what is right there under one's nose. I would argue that if entrepreneurship is like vision, though, it is like human vision, which does not see merely patches of color but meaningful things. Like visual perception, it involves focusing on an object as a certain sort of thing, seeing it against a background. The profit opportunities the entrepreneur discovers are not directly copied off reality in itself; they are interpreted from a point of view.

Kirzner insists that, in spite of economists' propensity to assign every choice a cost, the discovery of profit opportunities is "costless." He stresses the primordial nature of entrepreneurship by pointing out that an entrepreneur does not deliberately set aside a known alternative when he notices a new opportunity. Ex ante, of course, there is no alternative being purposely set aside in the act of noticing something, but surely ex post there will be things that remain unnoticed because attention was directed one way rather than another. Kirzner sometimes seems to be denying even this second, ex-post sense of cost to alertness, making entrepreneurship appear more mysterious than it needs to be. Alertness seems to be some kind of general-purpose attentiveness that is "switched on or off," as Kirzner likes to say, or at best is a
unidimensional quantity, such that there can be more or less of it, and more is always better. The only opportunity cost of not opening one's eyes, after all, is leaving them closed. The only "opportunity" forgone by opening one's eyes is seeing nothing at all.

I do not see why alertness has to appear to be an exception to the economist's principle that costs accrue to any action, that there are necessarily opportunities forgone. Being alert in any one respect implies that one is not being alert in some other respects. Asking one question is passing over the asking of an infinite number of others. The suggestion that alertness has a directedness about it indicates that it is a matter not so much of seeing what is under one's nose as it is of looking or listening for certain kinds of things. This systematic directedness of the discovery process makes some potential opportunities more likely to be found by certain sorts of alertness. In principle, it is conceivable within Kirzner's approach that someone could be perfectly alert—could see "all the opportunities there are"—even though Kirzner does not believe anybody actually achieves this degree of alertness. Since the very act of paying attention to one aspect of reality inherently involves removing attention from other aspects, however, it makes no sense, even in principle, for someone to be alert to everything. Alertness is multidimensional. It is misleading to treat it like an on/off switch or to say there is simply more or less of it. There are qualitatively diverse ways of being alert.

While Kirzner shows that entrepreneurship involves the displacement of an old framework by a new one, he confines this change to the situation where something under one's nose that was previously ignored gets noticed. In the trivial examples Kirzner uses, profit opportunities are implicitly treated as atomistic—that is, finding a new opportunity need not have any effect on the entrepreneur's understanding of the old opportunities he had already found. But a shift of interpretive framework can bring about a more fundamental change than simply adding to a stock of things that have been noticed. An interpretive framework can change in a far more profound manner: all the old opportunities will suddenly look different, indeed may no longer be considered opportunities at all, when a new one is found. And of course the circumstances one has been alert to in the past help determine the kinds of situations one will be apt to notice in the future. That is, profit opportunities are not independent atoms but connected parts of a whole perspective on the world. And the perspective is in
turn an evolving part of a continuing cultural tradition, constantly being reappropriated to new situations.

The way Kirzner renders the idea of alertness leaves inexplicable the systematic process by which one means/ends framework gets replaced by another. It appears to be an arbitrary matter why some things get noticed before others. In this respect his theory comes dangerously close to the hazard he associates with Shackle, cutting change off from any systematic connection to its history. Taking culture more seriously would allow Kirzner's theory to make the process by which perspectives change more intelligible.

Profit opportunities are not so much like road signs to which we assign an automatic meaning as they are like difficult texts in need of a sustained effort of interpretation. Entrepreneurship is not only a matter of opening one's eyes, of switching on one's attentiveness; it requires directing one's gaze. When an entrepreneur sees things others have overlooked, it is not just that he opened his eyes while they had theirs closed. He is reading selected aspects of a complex situation; others have not read. And this raises the question of what gives a predirectedness to the entrepreneur's vision, of why he is apt to read some things and not others. I submit that the answer to this question is culture.

Crusoe Economics, Cartesian Philosophy, and Hermeneutics

In learning the language, the child absorbs a way of thinking and of expressing his thoughts that is predetermined by the language, and so he receives a stamp that he can scarcely remove from his life. The language opens up the way for a person exchanging thoughts with all those who use it; he can influence them and receive influence from them.

—Ludwig von Mises, *Nation, State, and Economy*

It is less accurate to suppose that thinking man creates and controls his cultural evolution than it is to say that culture, and evolution, created his reason. . . . So far as scientific explanation is concerned, it was not what we know as mind that developed civilization, let alone directed its evolution, but rather mind and civilization which developed or evolved concurrently. What we call mind is not something that the individual is born with, as he is born with his brain, or something that the brain produces, but something that his genetic equipment . . . helps him to acquire, as he grows up, from his family and
adult fellows by absorbing the results of a tradition that is not genetically transmitted. . . Shaped by the environment in which individuals grow up, mind in turn conditions the preservation, development, richness, and variety of traditions on which individuals draw. By being transmitted largely through families, mind preserves a multiplicity of concurrent streams into which each newcomer to the community can delve. It may well be asked whether an individual who did not have the opportunity to tap such a cultural tradition could be said even to have a mind.

—Friedrich A. Hayek, The Fatal Conceit

I suggest that the reason why the economic theory of entrepreneurship—even when at its best as in the contributions of Kirzner—has not gotten very far in elucidating the cultural dimension is traceable to its Crusoe economics orientation. Economics has based itself more than it realizes on the case of Robinson Crusoe, a fictional, isolated individual confronting the natural world, and has essentially “added in” Friday, to try to make the analysis into social theory. Choice in general, and thus entrepreneurial choice in particular, is first studied on what is thought to be the more basic Crusoe level and only then complicated by the introduction of other choosing individuals. This analytical procedure has, I believe, led to a failure to grasp fully the radically social element of the human mind and thus of choice.

Questioning the foundational role of Robinson Crusoe is no minor quibble with contemporary economics. Economic theorizing, both in its mainstream and in its market-process variations, usually considers microeconomics the basis of the rest of economics and treats the choice situation of the isolated individual as the basis of microeconomics. The cherished principle that the socially desirable outcome is achieved by the choices of individuals is in question here. If this principle claims only that the social whole has no purposes but is a complex resulting from the choices of its participating individuals, then the principle is unobjectionable. To most economists, however, methodological individualism seems to mean more than that. It is generally interpreted as demanding an analytical privileging of the study of the individual over the study of society. It seems to insist that Crusoe, the theoretical construct of an isolated individual, must come first to serve as the foundation of the analysis of markets. As Kirzner put it at the beginning of his book on price theory, “Society consists of individual human beings.” We need to make sense of the single individual’s actions before we can make sense of the way such actions interact in society. The isolated
individual becomes the analytical framework for studying human action in general, of which action in regard to market institutions is then taken as a special case.

When the analysis starts from Crusoe, a special difficulty seems to face the agent when other agents are introduced, since now what he needs to know about includes not only external and observable facts of the natural world but also the contents of the other agents' minds. In the theory of entrepreneurship this presents itself as the problem of how the entrepreneur can come to "read the minds" of his potential customers, whether they are consumers or producers, and provide what they will want. It is one thing for Crusoe to see a new use for wine, where he has to anticipate only his own wants, but it is a substantially more difficult thing for him to figure out what Friday will want. Something seems highly mysterious, from this perspective, about the entrepreneur's ability to look into the contents of other minds.

This procedure of starting with the individual mind, which is presumed to be a self-contained, unproblematic entity, and then moving on to address the problem of "Other Minds," has been the mainstream approach in philosophy ever since Descartes. It has come under powerful criticism by a number of contemporary philosophical schools, from which economics could learn a great deal.23 Among the most interesting critics of Cartesian philosophy is Hans-Georg Gadamer, who shows that the mind is already social before it is rational and thus that a whole variety of special difficulties with the analysis of interpersonal communication prove to be pseudo-problems. The individual agent, Gadamer argues, is already operating within a linguistic process even when he is confronting nature. He is already, as it were, reading other people's minds when he thinks about uses of wine or when he thinks about anything whatsoever. Human beings should have no special difficulty reading the minds of others, since our linguistic practices are tapping into a shared culture all the time.

As the epigraphs by von Mises and Hayek suggest, the market-process school has at least partially glimpsed the main thrust of this critique of Cartesian thinking. The fact that the mind thinks in language, which it acquires in the process of enculturation, makes "the mind" a profoundly social entity. Although Kirzner is right when he declares that society consists of individual human beings, it is also true that individuals consist of society. They are not isolated, self-contained things but interdependent parts of an integral process of
cultural dynamics. All understanding of the natural world is already social understanding, embedded in and meaningful only in relation to culture. The methodological priority given to the rational choice of individual minds implicitly treats them as if they could exist in isolated, cultureless, languageless brains.

The peculiarly cultureless "agent" of Crusoe economics is an odd construction to use as a basis for human action in general. Choice theory is constructed as if it does not matter whether the mind operates with a social language or not. The Crusoes of economics, unlike the character from Defoe's novel, need know nothing of language. They simply apply means to ends. All the minds we have experience with, though, can conceive of means and ends only through their language, that is, through their ability to tap into the cultural process. If economics aspires to be about human action as we know it, it should take language and cultural transmission seriously. As von Mises put it, we need to "consider what immense significance language has for thinking and for the expression of thought, for social relations, and for all activities of life." 26

Economists may say in their own defense that economic analysis only begins with this strange, cultureless, Crusoe character and that it then moves on to the theory of markets, where it specifically takes up the mutual influences of individuals on one another. But where one starts can have important influences on the way one moves on. Not enough seems to change when the analysis moves from the individual experiment to the market experiment. The market seems to be populated with many Crusoes, each devoid of culture and communicating with one another only by price "signals."

The entrepreneur is typically pictured as a loner bucking the crowd, a maverick who sees things differently from everybody else. This view contains an element of truth, of course, in that the entrepreneur comes upon a new reading of his situation that may be qualitatively different from the readings others have been able to make. But his ability to read new things into a situation is not primarily due to his separateness from others but, indeed, to his higher degree of sensitivity to what others are looking for. The really successful entrepreneurs we know are not unusually separate from others; on the contrary, they are especially well plugged into the culture. What gives them the ability to sense what their customers will want is not some kind of mysterious alertness that gets "switched on," but their capacity to read the
conversations of mankind. They can pick up the sense of where their fellows in the culture stand, what values they adhere to, what purposes they pursue, what they consider beautiful, and what they deem profane.

Different entrepreneurial acts are the readings of, and contributions to, different conversations. The successful supplier of consumer goods listens to the discourse of the consuming public, senses what they will be likely to find attractive and what they will not, and is thereby more persuasive in getting them to try new products. The successful venture capitalist listens to the concerns of the banking community and thereby enhances his ability to persuade the loan officer to make an investment. The successful supplier of innovative industrial inputs listens to the technological conversations of his potential customers, exploits his skill in anticipating their specific requirements, and thereby gains an ability to persuade them to explore hitherto ignored technological possibilities. The successful employer listens to the discourse of existing and potential employees and tries to shape an attractive work environment that will persuade new workers to come and old ones to stay. What makes entrepreneurs successful is their ability to join conversational processes and nudge them in new directions.

Conversational processes about production and consumption plans existed in human societies before the evolution of market processes and provided the foundation on which primordial elements of markets began to evolve. The process by which direct exchange evolved out of reciprocal gift giving and by which money evolved out of exchange must have been a discursive process. Advanced market institutions such as contract law, the price system, accounting conventions, banking methods, and so forth are emergent properties of the process of cultural evolution. A modern market is still a discursive process, but now one in which the participants are able to use not only spoken and written words but also prices, advertising, stock markets, and other media of communication.

Perhaps, then, a better starting point than Crusoe from which to proceed to the analysis of markets would be the premarket communicative process of language and cultural transmission. Rather than consider the interactions of individuals in a market context as fundamentally analogous to Crusoe’s isolated actions, we might consider marker forms of interaction as fundamentally analogous to linguistic interaction. In particular, Gadamer’s theory of language might be a promising place to start. Gadamer’s challenging argument—that it is
not so much we who speak language as language that speaks us—underscores the point that the process by which we comprehend our world takes place on the social level. If we appreciate the way language constitutes the basis of all understanding, it seems clear that the communicative processes involved in market institutions are emergent extensions of the linguistic process. What existed historically before the emergence of markets was not Robinson Crusoe but processes of cultural evolution in which interacting human beings participated. Markets can be viewed as offshoots of, and complements to, the process of cultural dynamics.27

Gaëtamer's work on the way tradition is "appropriated" is, I believe, an approach to cultural change that can steer between the hazards Kirzner warns against. It makes change intelligible as something that grows out of history; yet it permits radical, nonmechanistic change. I think the theory of entrepreneurship could more fully account for the discovery and interpretation aspects of economic change if it were built on the hermeneutical theory of language and culture.