

The Role of the Entrepreneur in the Economic System

Israel M. Kirzner



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FOREWORD

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The Centre for Independent Studies has established the annual John Bonython Lecture to examine the relationship between individuals and the economic, social and political factors that make up a free society. Named in honour of Mr John Bonython A.O., first Chairman of the Board of Trustees of the Centre, the Lecture will be given each year by a man or woman (not necessarily a professional scholar) selected because of the valuable insights he or she has developed in support of the fundamental objectives for which the Centre for Independent Studies has been established.

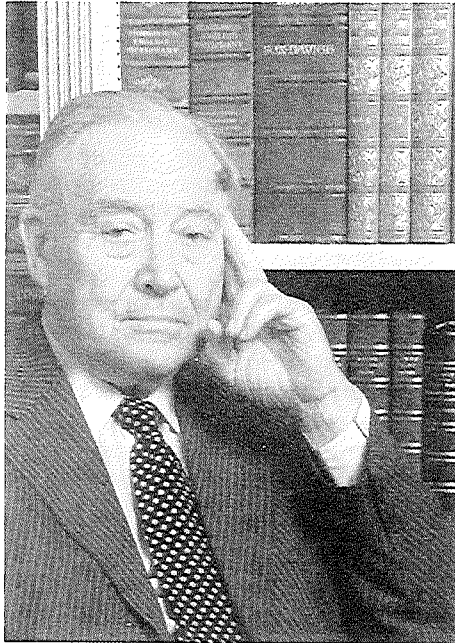
The Inaugural John Bonython Lecture took place in Adelaide on 30 July 1984. Following a dinner attended by 240 people, Professor Israel M. Kirzner, Professor of Economics at New York University, delivered the lecture. John Bonython and members of his family were present. The Lecture was chaired by Professor Cliff Walsh of the University of Adelaide. Mr Hugh Morgan, current Chairman of the Board of Trustees of the Centre, introduced John Bonython and Professor Kirzner. Professor Richard Blandy of Flinders University closed the evening with comments on the lecture and proposed a vote of thanks to Professor Kirzner.

Each year's lecture will be published as part of the Centre's series of Occasional Papers.

Greg Lindsay

John Bonython

Introduction by Hugh Morgan



John Bonython

The Centre for Independent Studies has established the John Bonython Lecture to 'examine the relationship between **individuals** and the economic, social and political factors that make up a free society'. Although, as the official text has it, the lecture will be the occasion for examination and analysis, since it has been named to honour John Bonython it must also inevitably and appropriately be an occasion for **celebration** of the individual in his relationship with society.

John Bonython is associated in the public mind primarily with Santos. As is always the case, the ultimate success of the Santos exploration program in the Cooper Basin has almost wiped out the memory of the early years of disappointment and struggle. Santos was formed in 1954, and John Bonython financed it entirely on his own for the first twelve months or so. The official opinion in the South Australian Department of Mines was that there was no petroleum potential in the Cooper Basin. But some members of the Bonython family had long entertained the view that there could be petroleum beneath the Great Artesian Basin, and the spur was provided by an old school friend, Robert Bristowe, who thought, in what was regarded as a most unscientific manner, that the Flinders Ranges area of South Australia in particular bore a strong resemblance to other oil-rich parts of the world he had seen. This prompted John Bonython to embark on the Santos journey.

Santos, as you know, stands for South Australia, Northern Territory Oil Search. John Bonython was primarily concerned, back in the 1950s, to find oil in **South Australia**. Indeed his first proposal for the name of his new company back in 1954 was SAO — South Australian Oil. But Sir Douglas Mawson persuaded him to include the Northern Territory in his ambitions, and so SAO (which was also the name of a well-known biscuit and the brand name of some pyjamas) gave way to SANTOS. Since the Northern Territory had in any case once been part of South Australia, and its handing over to the Commonwealth a major act of political folly, this seemed to be quite appropriate.

John Bonython's life and work remind me in many ways of the great Edmund Burke, who more than anyone else in the history of Western political philosophy was able to harmonise the apparently conflicting values of the demands of society on the individual — the conservative imperative — with the

necessity of maintaining the primacy of the individual as the engine of intellectual and economic progress — the liberal imperative.

John Bonython's other business activities included a long-term directorship of Advertiser Newspapers Limited, culminating in ten years as Chairman.

The story of John Bonython and Santos is the story of an individual who had a deep attachment to his own city and his own State, and who demonstrated that attachment through entrepreneurial activity of the most outstanding kind.

Born in Adelaide in 1905, John Bonython read law and history at Cambridge in the 1920s. He came to know Keynes and Pigou, and now regrets that he didn't study economics at Cambridge in those heady days. Given the contemporary appreciation of just how misleading and meretricious many of Keynes's doctrines were, it probably is just as well that John Bonython stayed with history and the law.

In 1926, as a Cambridge student, he followed very closely the display of great passion and hostility that marked the General Strike. Not long before he came back to Adelaide there was a strike at Port Adelaide that was broken by 5,000 volunteers, and so at a crucial time in his intellectual development he had to reflect on the fundamental problems of order and liberty within the democratic constraints of our parliamentary system.

In the late 1920s the Political Reform League was founded in South Australia. Its founders had contemplated a new party, but instead they decided to transform the old Liberal Federation. John Bonython became a very active member of the League. About 1945 he helped to launch the Institute of Public Affairs, which is now undergoing a revival.

In the late 1970s he invited first Arthur Shenfield and subsequently Antony Fisher to Australia. Those visits, together with the work Greg Lindsay had initiated in Sydney, led to the establishment of the Centre for Independent Studies, with John Bonython as the first Chairman of the Board of Trustees.

It is entirely appropriate then that the CIS should establish the John Bonython Lecture. In honouring him it also, of course, gains a little reflected glory and that in itself is well worthwhile.

I now ask John Bonython to address us.

Remarks

John Bonython

Ladies and Gentlemen (I resist the temptation to call you fellow persons — or some other form of 'newspeak'): Mr Morgan was very kind and said some very nice things about me — one or two I hadn't heard before. I only hope that he can give me a copy of his remarks (in writing) so if I ever want any form of reference I may quote them.

I regret the indisposition that has befallen Joe Winter, the CIS's South Australian Trustee. As you know he has had a stroke. I'm flattered that he should have followed the same path as I took. I didn't want him to. I hope he recovers quickly. Mrs Winter told me this morning that he is doing well.

'Let me first say a word about myself' — that is a quotation from that well-known economist, Stephen Leacock. My medical adviser says that I must speak to you for no more than three minutes (which lets both you and me off the hook. I am sure you are relieved). But I am sorry that you will not have the opportunity to hear my lecture on 'Some Economists I Have Known'. There is a sequel, 'Some Politicians I Have Known'.

It is an honour to have this lecture named after me. Such a thing has never happened to me before. I am glad that I have been able to achieve something worthwhile.

I hope that the Centre for Independent Studies continues to shed light upon economic and constitutional problems — more and more light, so that the light will reach out and touch somebody — even everybody. (That is a phrase I heard in the last 48 hours, and I stuttered over it about as badly as the President of the United States. That is one of the troubles about having had a stroke.)

I hope the lecture — the John Bonython Lecture — itself endures.

* * * * *

There are many I commend for their great work for the Centre for Independent Studies. You, sir, Mr Morgan; Maurice Newman; Bruce Kirkpatrick. You are here. (Now I am caught — I will leave someone out — forgive me.)

But I must make mention again of Joe Winter, even though he is **not** here.

And I especially must mention our Director, Greg Lindsay. He has done wonders.

Introduction Israel Kirzner

by Hugh Morgan



It is with great pleasure that I introduce Professor Israel Kirzner.

Professor Kirzner was born in London in 1930. His family moved to Cape Town in 1940 and later to New York, where he attended Brooklyn College and subsequently New York University's Graduate School of Business Administration. He intended to become an accountant, but at the Graduate School of Business Administration he had the opportunity and great privilege of attending lectures given by Ludwig von Mises, who in exile as a result of the Hitlerian conquests in Central

Europe, was planting in the New World the traditions of the Austrian School of Economics.

I have often wondered why it is called Austrian Economics rather than Viennese Economics, since all of the great men of this school, save one, have been Professor of Economics at the University of Vienna. First there was Carl Menger in the 1870s, then Eugen von Boehm-Bawerk, then Ludwig von Mises, and more recently the Nobel Laureate, Friedrich von Hayek. Menger, von Boehm-Bawerk, and von Mises all held that chair in their turn. Von Hayek, as an exile in England, played a crucial role in the intellectual counter-revolution against the socialist and Keynesian intellectual hegemony of those days. Von Hayek's *The Road to Serfdom*, published in 1944, was as important as George Orwell's 1984 or *Animal Farm*, and Winston Churchill was greatly influenced by it.

I am briefly discussing this intellectual history because Professor Kirzner comes to us tonight as a leading contemporary Austrian economist. For all I know he has never even been to Vienna, but the Austrian label is one he wears with distinction and with pride. He acquired his deep interest in and attachment to Austrian economics at the feet of Ludwig von Mises himself at New York University in the 1950s, and so we have with us tonight someone who is connected by a direct line of apostolic succession to the founders of the school.

I am perforce obliged to attempt a layman's explanation of the significance of Austrian economics. The essential characteristic of Austrian economics is the paradigm that it is the individual and his actions, choices, and decisions that constitutes the fundamental building block of the economy. Classical economics, Ricardian economics, has always thought in terms of aggregates or classes.

The starting point for Austrian economics was the discovery by Carl Menger in 1871 that market value is not an objective, external thing like the rising and setting of the sun, but a subjective thing determined by individuals, by human choices, preferences, actions, wants, fashions and desires. This seemingly innocuous discovery has substantial philosophical and economic implications. In particular, Marxian theories of value, and consequently of labour exploitation, are rendered immediately untenable and ridiculous.

Professor Kirzner's topic tonight is 'The Role of the Entrepreneur in the Economic System'. It is a topic at the heart of the Austrian tradition. It is an entirely appropriate topic for the Inaugural John Bonython Lecture, and I invite Professor Kirzner to address us.

THE ROLE OF THE ENTREPRENEUR IN THE ECONOMIC SYSTEM

Israel M. Kirzner

I. INTRODUCTION

I am deeply honoured to give this Inaugural John Bonython Lecture. I shall say things this evening that tend to strongly defend the social significance of the contributions made by entrepreneurs and the entrepreneurial endeavour. However, I shall point out that this significance and the value of these contributions in no way depends on the benevolence, public spiritedness, scholarship, wit, gentlemanly charm or high moral characters of entrepreneurs. Even if all entrepreneurs were crass, selfish and uncouth, we would have to recognise the valuable role they play in society. From this perspective, then, the tribute that is being paid by the Centre for Independent Studies in offering this lecture in honour of so distinguished a figure as John Bonython — gentleman, scholar and public-minded citizen — comes with very special grace.

I had the pleasure this morning of spending some time with John Bonython at his home and a remark that he made has stuck in my memory. I believe it is highly relevant to my lecture this evening. We were examining the fascinating collection of works on Cornish history and genealogy that John Bonython inherited from his grandfather, and we noticed some ink corrections made in one of the books by Sir Langdon on one of the genealogical tables referring to the 16th century Bonythons in Cornwall. John remarked, 'The Bonythons have quite a habit of correcting mistakes'. I shall return to this remark a little later this evening. But first let me turn to my topic — the role of the entrepreneur in the economic system.

II. HOW WE SEE THE ENTREPRENEUR

The widespread view, certainly in my own country and I believe in Australia too, is that entrepreneurs are extraordinarily bright and greedy individuals whose activities are rather disreputable. And because they are so disreputable,

these activities are likely to result in many unfortunate social consequences. Sometimes it is grudgingly conceded that the sheer vitality and energy of entrepreneurs somehow pushes capitalist societies to higher and higher levels of well-being. Nonetheless, it is usually maintained that all of this must inevitably be accompanied by exploitation and injustice, by the production of shoddy, unsafe products, by monopoly gouging of the consumer, or by violation of consumer preferences through advertising. Moreover, the most tangible evidence of entrepreneurial success, namely the earning of pure profit, is seen as evidence of the unjustified character of entrepreneurial behaviour because, after all, profits are not paid in return for any productive service. Since profits consist of revenues over and above what has to be paid to produce the product, they seemingly cannot be explained as a necessary payment. Inevitably, then, the suspicion is that profit must have been achieved through something approaching fraud or cheating, exploitation or robbery.

An analogy that has sometimes been used perhaps best expresses the popular view: the entrepreneurial lust for profit is compared to the windpower that propels a sailboat. It has the power to move the boat, but cannot be relied upon to move it in the right direction. The wind can just as well propel the sailboat onto rocks as bring it into safe harbour. In other words, profit is a powerful motive that drives individuals to activity. It motivates them, it gets things going, but there is no guarantee whatsoever that the pursuit of profit will not lead to a great deal of waste, injustice and unhappiness.

I have a rather different view of the entrepreneur and the entrepreneurial motive in pursuing pure profit. To repeat, I do not claim that entrepreneurs are moral heroes. I claim instead that the remarkable set of institutions that make up the entrepreneurial market system is able to harness important human characteristics, important human attributes, to the benefit of society. To establish this position it will be necessary for us to consider separately and carefully two items. First we shall consider what is entrepreneurship and the nature of entrepreneurial activity, and second we shall consider what we mean as economists by the 'public interest'.

III. WHAT IS ENTREPRENEURSHIP?

Who are entrepreneurs and what do they do? We know that entrepreneurs start companies and introduce new product

lines, they discover new techniques of production, they strike out for new markets, they seek for new sources of finance, they develop new forms of internal organisation, and on and on. But what is the analytical essence of these diverse activities? How can we capture the theoretical core of entrepreneurship that manifests itself in so many diverse, specific tasks? This has turned out to be an elusive question.

In the history of economic thought, in the history of the attempts economists have made to understand entrepreneurship, a variety of suggestions have been proposed concerning the 'essence' of entrepreneurship. Some economists have seen entrepreneurship as consisting essentially in the bearing of pure, sheer uncertainty. Others have seen it as consisting in its innovative character. Others have seen the entrepreneur as the middle man linking markets. Others have seen the entrepreneur as providing leadership; others as a source of information. All of these views are represented in the literature by important contributions.

Alertness

In my own work over the years I have found it useful and helpful to focus on entrepreneurial alertness to available but as yet unnoticed opportunities. What the entrepreneur does is identify opportunities for gain that others have overlooked. These opportunities can take the form of all the specific activities that we have mentioned. But the essence of all of them is that the entrepreneur recognises something that others have failed to recognise: that there is an opportunity waiting to be grabbed. It is the alertness of the entrepreneur that leads him to recognise what others and even the entrepreneur himself may earlier have failed to notice.

Observe that the entrepreneur does not possess specific knowledge that others do not possess. What the entrepreneur possesses rather is a sense for discovering what is around the corner. If you like, it is a sense of knowing where to find knowledge. A rather subtle and elusive role; but, I submit, an extraordinarily important one.

Economising and Entrepreneurial Discovery

The implication of this is that entrepreneurial activity is sharply distinguished from what economists call 'economising' activity. Economising activity, in the usual sense in which the

term is employed by economists, refers to the careful allocation by human beings of their scarce resources in order to achieve optimal results: the maximisation of some desired objective. To economise is to adjust to a particular perceived situation in order to avoid waste and ensure efficiency. But this efficiency is strictly relative to a **given** perceived situation. Economising does not embrace the discovery of hitherto unperceived opportunities.

Economists often appear to view **all** human activity as consisting only of acts of economising, and there is no doubt that economising activity is of great importance. But the world of human action is far too rich and dynamic to be confined wholly within the bounds of the static economising model. The world of action must be recognised as including also the dimension of entrepreneurial alertness and discovery. This recognition dramatically changes the face of things. Thus, for example, economists who have focused on economising have often asserted, as a simple and universal economic truth, that there is no such thing as a 'free lunch'. A lunch consumed means that some resources have been diverted away from some other potential use. There are no lunches that do not cost resources in this way. But in the entrepreneurial context, in which there are more resources available than had ever been believed, there can be a free lunch. That is what the entrepreneur discovers: totally new opportunities, opportunities that had previously been overlooked. Lunches so discovered have not diverted resources away from other contemplated projects. And indeed the process of entrepreneurial discovery is the revelation of an unending series of free lunches waiting, so to speak, to be noticed and taken advantage of.

I think you will understand now, perhaps, why I found John Bonython's remark earlier today to be so relevant. Like the Bonythons, the entrepreneur is always discovering where errors have been made, and is always alert to ways of correcting those mistakes.

IV. THE PUBLIC INTEREST

Let me turn now to consider what economists should understand and mean by the term 'the public interest'. After all, we are interested in exploring how the entrepreneurial role can serve the public interest. What is that public interest?

Mainstream Economics

Here again we must be wary of the standard approach that mainstream economics has tended to follow in identifying the public interest. From a standard economic point of view, the public interest has been seen as the achievement by society of an efficient allocation of social resources. It is as if society were a gigantic economising entity with scarce resources, a given budget, and competing goals. Society would then need an allocation pattern for its resources that would achieve its peak level of goal satisfaction, avoiding any kind of social waste. That is, society would want to avoid any state of affairs, any pattern of resource allocation that might satisfy one set of goals at the expense of some other more important set of goals.

This notion of the public interest that I've associated with standard economics tends to treat society in exactly the same way as standard economics treats individual human acts: as economising activity that is successful when it achieves its efficiency objective. From this perspective, to say that the market economy fulfils the public interest means that the market is successful in achieving an efficient allocation of resources. It is here that I believe the Austrian tradition to which Hugh Morgan referred earlier can provide illumination and a most helpful alternative perspective.

The Austrian School and Dispersed Knowledge

We need to go back to the work of F.A. Hayek. Over 40 years ago Hayek pointed out that treating society as if it were an economising entity overlooks a fundamental problem that society confronts before we can even begin to discuss economising at a social level. The problem is that one of the prerequisites for talking about economising at a social level is a complete, centralised bank of knowledge about the objectives of society. But in society, this knowledge is clearly and obviously absent. Instead, Hayek pointed out, the knowledge we have is scattered and dispersed.

Each of us, as members of society, knows certain things. We know about what we ourselves need and what our families need, we know a little about what our neighbours may need. We also know a little bit about the availability of resources in our immediate neighbourhood. We don't know a great deal but we do each know a little bit; and the little bits we know as individuals make up a sort of jigsaw puzzle of separate pieces

of scattered information. Before we can even begin to think of solving the social economising problem we have to confront the problem of ensuring that these scattered bits of information are brought to bear on economic decisions so that in fact the knowledge is not wasted. How can we ensure that there will be coordination between these innumerable members of society, all knowing their own things, so that their knowledge can be deployed in the interest of society?

The answer to this question is the great contribution of both Mises and Hayek. The market comes to be perceived as a social instrument that is able to bring into the picture and harness all of these scattered bits of information, thus initiating a process of mutual learning that permits coordination to be achieved. It is important to recognise the drastic change in understanding that this Austrian view entails. We are no longer dealing with the narrow problem of coping with scarcity, but with the much more subtle problem of overcoming the gaps in knowledge that exist throughout society and of transcending the little scarcity problems that confront each one of us.

You may notice the analogy here between this economic task and the task of the entrepreneur that we mentioned earlier. From this perspective the notion of the public interest becomes far more subtle than the one I have identified with the older, standard economic view. The public interest surely depends, from this newer economic point of view, on the ability of society's institutions to transcend these narrow scarcity problems and to mobilise the scattered and initially uncoordinated bits of information. Let us see where the entrepreneur fits into this.

V. THE ROLE OF THE ENTREPRENEUR

We have stated that the entrepreneur engages in perceiving opportunities. What kinds of opportunities does the entrepreneur discover? As far as markets are concerned the entrepreneurial endeavour can be expressed very simply: the entrepreneur perceives the opportunity to buy at a lower price and sell at a higher price, and the difference is pure profit. It is as simple as that. This simple framework can be translated into hundreds of forms and concrete cases. At the level of simple arbitrage, it is buying and selling in different markets at the same time. In judicious speculation, where resources are purchased for their anticipated appreciation over time, such resources are bought in one market today and sold in another

market tomorrow, or 10, or 50 years hence. Finally, this bridging of markets is manifest in the creative activities of entrepreneurs who are able to assemble a group of everyday resources and somehow transform them into new products that others have not dreamed of and that consumers value highly. That too involves bridging markets, where the resources are bought in one market and the new product is to be sold in another market.

Markets and Opportunities

The bridging of these markets involves the discovery of opportunities created by errors. These markets would not be separated and the opportunities for profit would not exist if others had not made mistakes that need to be corrected — if others had not overlooked that which the entrepreneur now sees. The price would not, without such error, be lower in one market than it is in the second market, because those who sell at the low price would not do so if they were aware that they could sell at the high price. And those who buy at the high price would not do so if they were aware that they could buy at the low price. So that the very phenomenon of pure profit is evidence of earlier error — error that reflects that dispersed knowledge of which Hayek wrote.

But these errors invite their correction. The incentive for the correction of these errors is provided by the error itself because, as we have seen, the error manifests itself in the form of pure profit. That pure profit is the magnet that attracts the attention of the alert entrepreneur — who, I repeat, need not be a moral hero. He needs merely to be able to 'smell' where the profits are, because that sense is his alertness to existing error and his pursuit of those incentives is the way he corrects those errors. When the entrepreneur acts to capture profit he bids up the price where it has been low and bids down the price where it has been high, eliminating the price differential. This phenomenon repeats itself in innumerable guises and all types of entrepreneurial endeavour.

In carrying out this role, what is the entrepreneur in fact achieving? He is achieving exactly the kind of coordination and mobilisation of scattered information that we were discussing earlier under the topic of public interest. When price differentials are present between markets it means that the knowledge of the individuals in one market is not being brought to bear upon the knowledge of the individuals in the other

market, so that buyers and sellers are not meeting each other because they are not aware of each other. The entrepreneur bridges that gap. He notices those scattered bits of information and, by responding to the translation of those errors into profit, he corrects the initial error. His activity tends to solve the problem of dispersed knowledge. In this way the role of the entrepreneur is wholly congruent with the promotion of what we described earlier as the public interest, in the appropriate economic sense of that term.

Requirements of the Entrepreneur

What is required for the entrepreneur to be able to perform the role that we have identified with the public interest? What institutional framework is required, what encouragement does the entrepreneur need? The answer is that he needs no special encouragement; he needs only the assurance that an opportunity perceived will be permitted to be pursued. This is simply freedom of entrepreneurial entry — the absence of obstacles to discovery. Of course, such obstacles tend to be erected by the pressures of those who stand to lose by the entrepreneurial competition of the entrant. In other words, what we require for the entrepreneurial process to be put to work is absence of privilege and freedom of entrepreneurial entry. These are simply two sides of the same coin.

Does Society Benefit?

Let us return to our initial observation concerning the widespread disparagement of entrepreneurial activity. That disparagement, we noticed, is based in large part on the assumption that pure profit is unjustified. Pure profit does not seem explicable or justifiable in terms of effort or the cost of necessary resources. After all, it is pure 'gravy', over and above all amounts necessary to bring about the production of what is produced. It is natural, then, that critics of the entrepreneurial system see profit as prima facie evidence of less than honest dealing in some form or another.

In a narrow sense it is quite true that profits are not necessary for the production of a product. Suppose the entrepreneur buys resources for a sum of money. He creates out of those resources a new type and quality of product, a new form of marketing for that product that inspires consumers to buy at a price that leaves the entrepreneur with a handsome

profit. Clearly that product **could** have been produced even if its price was not greater than the price of the resources. But **would** it have been produced? That kind of judgment with hindsight presumes that we **already know** what products are needed. The essence of entrepreneurship is, let us remember, that it happens **before** it has been discovered what consumers need or what can be produced — the product is still around the corner, so to speak.

What inspires the alertness of the entrepreneur is surely the prospect of being able to benefit by the profits that may be embodied in the production of the product. It is hardly accurate to say that those profits were not needed. They were indeed needed to spur the discovery procedure of the entrepreneurial process. In fact, what has happened is that the entrepreneur, in transforming resources into something worth so much more, has created something out of nothing. The usual criteria of economic justice relate to given economic goods. Therefore they do not apply to the case of entrepreneurial profit, which represents a wholly new economic entity that has been created, found or discovered. So far from the 'unearned' character of profit being evidence of exploitation or fraud, this character of pure profit points to its invaluable role in inspiring pure discovery and in generating the solution to the social economic problem embedded in dispersed knowledge.

VI. CONCLUSION

What then is the role of the entrepreneur in the economic system? I think we can sum up our argument by drawing attention to **two** entrepreneurial functions. The entrepreneur is the agent that spurs society to take advantage of existing scattered and dispersed knowledge. This permits society to enjoy a tendency towards the fullest exploitation of existing resources in terms of today's technological knowledge. It permits society to avoid waste and to successfully negotiate the economising problems by bridging and overcoming the dispersed character of knowledge. At the same time, the entrepreneurial role also makes a second, related contribution. The entrepreneur and entrepreneurial activity not only spur society to continually become aware of better ways of utilising existing resources; it is entrepreneurial alertness that generates and harnesses new technological knowledge, and discovers entirely new bodies of resources that had hitherto been overlooked.

The entrepreneurial role is of paramount social significance in ensuring the fullest utilisation of existing resources in terms of existing knowledge. It is no less significant in fueling economic growth and development into a limitless future because the entrepreneur, after all, exists to transcend the limits of what has gone before. I submit that a society that prizes these achievements and appreciates them should surely learn to value the crucially important role the entrepreneur plays in the public interest.

Closing remarks

Richard Blandy

I am delighted to propose a vote of thanks to Professor Kirzner. We have heard a splendid inaugural lecture tonight from a distinguished American academic in honour of a distinguished South Australian entrepreneur. I'm sure you will all note the entrepreneurial spirit of the Centre for Independent Studies, a Sydney-based organisation, in honouring its founding Chairman with an annual lecture tonight in Adelaide, and I'm sure that we can look forward to further excellent examples on the path begun by Professor Kirzner.

I think it is fair to say that there is a groundswell of intellectual interest in the topic of Professor Kirzner's address tonight. Some of you may have read books like Peters and Waterman's *In Search of Excellence*, Naisbitt's *Megatrends*, and Klein's *Dynamic Economics*, to name a few. The central theme of these works is the idea of creativity in human beings, the capacity to go out and discover and to be entrepreneurs in the discovery sense that Professor Kirzner outlined tonight. We are seeing a shift — and Professor Kirzner outlined this very well I think — away from static frames of analysis of the way societies and economies are behaving, toward dynamic frames: talking about discovery processes, how we find out what we can do, and how we can do things better than the way we are now doing them. Under conditions of certainty when we assume that everything is known, large-scale planning appears to be the way forward because all the alternatives are known, and people, in Klein's words, are 'only technically alive'. By contrast we are becoming more interested in analysing how societies behave in conditions of uncertainty, exploring their evolutionary capacities, emphasising dynamic efficiency, flexibility, and the capacity to sail — I noticed this was another analogy used by Professor Kirzner — on the shifting socio-economic winds rather than trudging relentlessly on with fixed structures to inevitable defeat in the snows of Moscow.

Eric Trist, formerly of the Tavistock Institute in London, says that we are now entering the age of the person. The individual is demanding freedom from institutional domination in the midst of the apparent dominance of large-scale mass organisations. The counter-trend towards individualism is well evident now in studies of people's values throughout the western world. People are demanding to count as individuals, to be free from domination and to be able to

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express their entrepreneurial creativity and discovery capacities.

In my view, this is a point that Professor Kirzner didn't emphasise as much as I would: entrepreneurship is found where societies and organisations are optimised for dynamic performance and dynamic efficiency; and bureaucracy, an alternative form of organisation with which we are all familiar, is found where societies and organisations are optimised by static performance and static efficiency. In an uncertain and therefore dynamic world, which is the one we actually live in, the bureaucracy must be less than optimal as a form of organisation. If the rate of change increases it becomes increasing costly for society to run itself along bureaucratic lines.

Also, in my view, entrepreneurship is a social phenomenon that potentially manifests itself in many individuals. Potential entrepreneurs are everywhere in organisations and societies, and one should never confuse the boss with the entrepreneur. The role of dynamic organisations is to be so structured as to allow and encourage these entrepreneurial individuals to experiment and to sort their trials into the promising and the unpromising. This sort of organisation has been called by Peters and Waterman 'structured chaos', and by others 'organic' or 'organised disorganisation', in contrast to the pyramid structures typical of bureaucracies. The superstructure is there to help those at the coal face, where the entrepreneur is generally to be found.

I think we are now starting to see what the real task is ahead of us in Australia. We have a very long way to go. It will require an enormous amount of imagination and courage to shift from the bureaucratic ways and structures that currently inform so many of our activities to the entrepreneurial ways and structures outlined so ably by Professor Kirzner. Professor Kirzner is a pioneer in these ideas. His ideas are very relevant to understanding our economic problems in Australia, and we are fortunate indeed to have heard him tonight.

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