BOOK-REVIEW

NEW AUSTRIAN INSIGHTS INTO REDISTRIBUTION

Israel M. Kirzner, Discovery, Capitalism, and Distributive Justice. Basil Blackwell, Oxford 1989, pp. x + 177, index.

An inevitable feature of the pure market economy is that the distribution of incomes produced as an unintended consequence of the market process is unequal. Many social scientists argue that such inequality is not consistent with the sense of justice entertained by the great majority of people and ought therefore not to be approved. In his latest book, Professor Israel M. Kirzner attempts to show that people would probably take a more accepting attitude in the inequalities of the market if they learnt to understand the market as an open-ended process of discovery.

Kirzner mentions several theories by which the distributive inequality of the market has been justified in the past. Ludwig von Mises and F. A. Hayek argue that the entire discussion of distribution and its justice is senseless in the market order where no central entity deliberately distributes a given aggregate income but where this income is spontaneously distributed simultaneously with its production. To many critics of the market, this reasoning is not quite convincing and additional arguments are therefore needed (p. 9).

In the marginal productivity theory, incomes of unequal size are justified on the ground that the recipients of these incomes make different contributions to production. For example, a speculator who correctly anticipates a crop failure and buys cheap before the price goes up appears to deserve his profit because he contributes toward curtailing consumption that later turns out to be relatively less urgent. A problem of this theory is that entrepreneurial profits need not in reality be in any proportion to the services rendered by entrepreneurs. In fact, the value of the service that the speculator renders would approach zero if the profit opportunity had otherwise been noticed by a rival speculator only a few seconds later (p. 49).

Still less can profits be justified on the ground that entrepreneurs have incurred costs to obtain them. Pure profits are defined as revenues net of all costs, and so they are by this definition obtained without any cost whatsoever. As Kirzner explains, an entrepreneur does not discover a profit opportunity by deliberately being alert to that particular opportunity or by systematically gathering information of it. He simply notices it and creates the profit, even to his own surprise, as it were out of nothing (chap. 2).

In the entitlement theory, the initial assignment of property rights is just if it is consistent with the principle of finders-keepers, and all the subsequent transfers of property rights are just if they are voluntary. As a consequence, any distribution of incomes produced as an unintended outcome of acceptable transfers from an acceptable initial position are considered just. A problem of this theory is that if, as it seems to be, the resources at the time of the initial assignment are assumed to be "already there", fully known by most of the people and only waiting to be appropriated by any one of them, the moral intuition of the finders-keepers rule is perhaps not strong enough. Who says that the finder has the right to obtain what is not his and deprive all the others of a valuable resource (p. 143)? The entitlement theory is also vulnerable to the criticism that market transactions are often not truly voluntary because under disequilibrium many buyers and sellers notice in hindsight that they chose wrong prices (p. 103). It might be argued that every market participant must well understand the possibility of error, but this argument is obviously weakened when the errors are total surprises as they may be in the dynamic market (p. 106).

In his own theory of capitalist justice, Kirzner takes the entitlement theory as the starting point and attempts to reinforce it by the Austrian insight into the market as an open-ended discovery process. He argues that the basic features of the entitlement theory command "widespread assent" (p. 131) and the finders-keepers rule is consistent with "widely shared moral intuitions" (p. 132). In order to understand the moral force of the amended entitlement theory, we must have a look at the Austrian theory of discovery as Kirzner presents it.

In neoclassical economic theory, human action is conceived as deliberate pursuit of given ends by the exercise of known means. In Austrian economic theory, it is not denied that such maximization may characterize some aspects of human behaviour, but it is emphasized that human action is mainly discovering those very ends and means which neoclassical economics assumes to be already fully known. Kirzner illustrates the difference between maximization and discovery by means of an example where Jones, by accident, finds himself trapped in a deep hole and wishes to escape from the predicament. When Jones constructs a ladder out of the lumber and nails he immediately sees at the bottom of the hole, we can say that he has found an escape through *production*. On the other hand, when Jones discovers an escape which he could not even imagine before he discovered it and which would perhaps be surprising to anyone who hears of it, we can say that he has found an escape through *discovery*.

The conceptual differences between production (maximization) and discovery can now be clarified as follows (pp. 21—29):

- production is deliberate utilization of inputs, such as lumber and carpentry know-how, which the producer knows he possesses, and discovery is unintended noticing of profitable opportunities through human alertness
- a product is an inevitable outcome of the decision to utilize given inputs that ensure, therefore, the emergence of the product, and a discovery is a fortunate outcome of entrepreneurial alertness that is necessary but not yet enough for the discovery to be made
- production is mechanical transformation of known inputs into a known output, and discovery is creating something new out of nothing without the use of any known inputs
- a product is the expected outcome of the utilization of inputs, and a discovery is always a surprise

- the ignorance of the producer means known or calculable uncertainty about, for example, the sufficiency of the lumber, and the ignorance of the entrepreneur means that he does not even know, or he cannot imagine, what he should know in order to remove his ignorance
- the error of the producer is an expected consequence of the risk he knowingly assumed, and the error of the entrepreneur is a complete surprise he could have costlessly avoided without any inputs.

Kirzner's idea is that the incomes received in the market are just because the recipients of these incomes have discovered them and created them as it were out of nothing (chaps. 5, 6). No one else seems to be entitled to such discovered incomes which might have remained unknown for ever without the entrepreneurial alertness of those who discovered them. The morality of the finders-keepers rule is best seen when the rule is *not* applied. For example, it does not seem to be just if, after an entrepreneur has bought a resource and used it innovatively in a highly profitable line of production, the profit is assigned to the seller who would perhaps never have discovered the profit opportunity (p. 108).

It is often thought that only professional entrepreneurs are capable of creating value *ex nihilo* by being alert toward unexploited profit opportunities. In Kirzner's view *all* resource incomes, such as wages, are entrepreneurial and discovered in the sense that *ex ante* mere possession of a productive resource does not yet assure any income (pp. 113 ff.). The fact that the wages of most, even though not all, labourers are high does not necessarily imply that the wages are earned routinely, but rather that the wage-earners are indeed capable of such entrepreneurship as Austrian economists assume.

The analysts of property usually think that the principle of finders-keepers is of practical relevance only at the first stages of social evolution when property rights are not yet fully specified and at those few later moments when technological advances create new resources such as radio waves. In Kirzner's view, the principle of finders-keepers plays continually an extremely important role in the market economy by providing a moral justification for the incomes discovered in the course of the capitalist process.

Austrian economics comprises several unique insights of which the idea of the market as a process of discovery is the most important and the source of most of the other insights. Professor Kirzner is known as an economist who not only profoundly understands the discovery idea but is also able to present it in a lucid and intelligible way. In the book under review he perfects his earlier accounts of the discovery idea and produces a summary statement that is probably the best available concise treatment of the Austrian theory of discovery (chaps. 2, 4).

When the discovery idea is applied to practical problems of different kinds, highly innovative insights emerge that are largely alien to mainstream economic thought. Kirzner applies in his book the discovery idea to the problem of distributive justice and produces a novel way of thinking about an issue that many consider to be already fully exhausted. The book is recommended reading for all those who want to understand the Austrian idea of discovery and its implications for the justice of the capitalist distribution of incomes.

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