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Introduction

127 As far back as I can remember, I always wanted to be an Austrian economist.
128 Well, not quite, but I was exposed to Austrian economics early on. I grew
129 up in a fairly normal middle-class household, with parents who were New
130 Deal Democrats. In high school, a friend urged me to read Ayn Rand, and
131 I was captivated by her novels. I went on to read some of her nonfiction
132 works, in which she recommended books by Ludwig von Mises and Henry
133 Hazlitt. I don't remember which economics books I read first, maybe Hazlitt's
134 *Economics in One Lesson* or Mises's *Anti-Capitalistic Mentality*. I didn't un-
135 derstand the more technical parts of their analyses, but I was impressed with
136 their clear writing, logical exposition, and embrace of liberty and personal
137 responsibility. I took a few economics courses in college and, while they lacked
138 any Austrian content, I enjoyed them and decided to major in the subject. I
139 had a very good professor, William Darity, who himself preferred Marx and
140 Keynes to Mises but who appreciated my intellectual curiosity and encouraged
141 my growing interest in the Austrians.

142 As a college senior, I was thinking about graduate school—possibly in
143 economics. By pure chance, my father saw a poster on a bulletin board ad-
144 vertising graduate-school fellowships from the Ludwig von Mises Institute.
145 (Younger readers: this was an actual, physical bulletin board, with a piece of
146 paper attached; this was in the dark days before the Internet.) I was flabber-
147 gasted; someone had named an institute after Mises? I applied for a fellowship,
148 received a nice letter from the president, Lew Rockwell, and eventually had a
149 telephone interview with the fellowship committee, which consisted of Mur-
150 ray Rothbard. You can imagine how nervous I was the day of that phone
151 call! But Rothbard was friendly and engaging, his legendary charisma coming
152 across even over the phone, and he quickly put me at ease. (I also applied for
153 admission to New York University's graduate program in economics, which
154 got me a phone call from Israel Kirzner. Talk about the proverbial kid in
155 the candy store!) I won the Mises fellowship, and eventually enrolled in the
156 economics PhD program at the University of California, Berkeley, which I
157 started in 1988.

158 Before my first summer of graduate school, I was privileged to attend
159 the “Mises University,” then called the “Advanced Instructional Program in
160 Austrian Economics,” a week-long program of lectures and discussions held
161 that year at Stanford University and led by Rothbard, Hans-Hermann Hoppe,
162 Roger Garrison, and David Gordon. Meeting Rothbard and his colleagues
163 was a transformational experience. They were brilliant, energetic, enthusiastic,
164 and optimistic. Graduate school was no cake walk—the required core courses
165 in (mathematical) economic theory and statistics drove many students to the
166 brink of despair, and some of them doubtless have nervous twitches to this
167 day—but the knowledge that I was part of a larger movement, a scholarly
168 community devoted to the Austrian approach, kept me going through the
169 darker hours.

170 In my second year of graduate school, I took a course from the 2009 Nobel
171 Laureate Oliver Williamson, “Economics of Institutions.” Williamson’s course
172 was a revelation, the first course at Berkeley I really enjoyed. The syllabus
173 was dazzling, with readings from Ronald Coase, Herbert Simon, F. A. Hayek,
174 Douglass North, Kenneth Arrow, Alfred Chandler, Armen Alchian, Harold
175 Demsetz, Benjamin Klein, and other brilliant and thoughtful economists,
176 along with sociologists, political scientists, historians, and others. I decided
177 then that institutions and organizations would be my area, and I’ve never
178 looked back.

179 The essays collected in this volume reflect my efforts to understand the eco-
180 nomics of organization, to combine the insights of Williamson’s “transaction
181 cost” approach to the firm with Austrian ideas about property, entrepreneurship,
182 money, economic calculation, the time-structure of production, and
183 government intervention. Austrian economics, I am convinced, has important
184 implications for the theory of the firm, including firm boundaries, diversifi-
185 cation, corporate governance, and entrepreneurship, the areas in which I have
186 done most of my academic work. Austrian economists have not, however,
187 devoted substantial attention to the theory of the firm, preferring to focus
188 on business-cycle theory, welfare economics, political economy, comparative
189 economic systems, and other areas. Until recently, the theory of the firm was
190 an almost completely neglected area in Austrian economics, but over the last
191 decade, a small Austrian literature on the firm has emerged. While these
192 works cover a wide variety of theoretical and applied topics, their authors
193 share the view that Austrian insights have something to offer students of firm
194 organization.

195 The essays in this volume, originally published between 1996 and 2009,
196 deal with firms, contracts, entrepreneurs—in short, with the economics and
197 management of organizations and markets. Chapter 1, “Economic Calcula-
198 tion and the Limits of Organization,” first presented in Williamson’s Institu-
199 tional Economics Workshop in 1994, shows how the economic calculation

200 problem identified by Mises (1920) helps understand the limits to firm size,
201 an argument first offered by Rothbard (1962). It also offers a summary of
202 the socialist calculation debate that has worked well, for me, in the classroom.
203 Along with chapter 2, “Entrepreneurship and Corporate Governance,” it offers
204 an outline of an Austrian theory of the firm, based on the Misesian concept
205 of entrepreneurship and the role of monetary calculation as the entrepreneur’s
206 essential tool. “Entrepreneurship and Corporate Governance” also suggests
207 four areas for Austrian research in corporate governance: firms as investments,
208 internal capital markets, comparative corporate governance, and financiers as
209 entrepreneurs. Chapter 3, “Do Entrepreneurs Make Predictable Mistakes”
210 (with Sandra Klein), applies this framework to the problem of corporate di-
211 vestitures.

212 Chapter 4, “The Entrepreneurial Organization of Heterogeneous Capi-
213 tal” (with Kirsten Foss, Nicolai Foss, and Sandra Klein), shows how Austrian
214 capital theory provides further insight into the firm’s existence, boundaries,
215 and internal organization. The Austrian idea that resources are heterogeneous,
216 that capital goods have what Lachmann (1956) called “multiple specificities,”
217 is hardly surprising to specialists in strategic management, a literature that
218 abounds with notions of unique “resources,” “competencies,” “capabilities,”
219 “assets,” and the like. But modern theories of economic organization are
220 not built on a unified theory of capital heterogeneity, simply invoking *ad*
221 *hoc* specificities when necessary. The Misesian concept of the capital-owning
222 entrepreneur, seeking to arrange his unique resources into value-adding com-
223 binations, helps illuminate several puzzles of firm organization.

224 Management scholars, and some economists, are familiar with Israel Kirz-
225 ner’s concept of entrepreneurship as “discovery,” or “alertness” to profit op-
226 portunities, typically seeing it as “the” Austrian approach of entrepre-
227 neurship. Kirzner, Mises’s student at NYU, has always described his approach to
228 entrepreneurship as a logical extension of Mises’s ideas. However, as I argue
229 in chapter 5, “Opportunity Discovery and Entrepreneurial Action,” one can
230 interpret Mises differently. Indeed, I see Mises’s approach to the entrepreneur
231 as closer to Frank Knight’s (1921), a view that makes asset ownership, and the
232 investment of resources under uncertainty, the hallmark of entrepreneurial
233 behavior. This suggests a focus not on opportunities, the subjective visions of
234 entrepreneurs, but on investment—on actions, in other words, not beliefs. I
235 suggest several implications of this approach for applied entrepreneurship re-
236 search. Chapter 6, “Risk, Uncertainty, and Economic Organization,” written
237 for the Hoppe *Festschrift* (Hülsmann and Kinsella, 2009), further discusses the
238 Knightian distinction between “risk” and “uncertainty,” or what Mises called
239 “class probability” and “case probability.”

240 Chapter 7, “Price Theory and Austrian Economics,” challenges what I
241 see as the dominant understanding of the Austrian tradition, particularly in

242 applied fields like organization and strategy. Scholars both inside and out-
243 side economics tend to identify the Austrian school with Hayek's ideas about
244 dispersed, tacit knowledge, Kirzner's theory of entrepreneurial discovery, and
245 an emphasis on time, subjectivity, process, and disequilibrium. Despite re-
246 newed interest in the Mengerian tradition, the Austrian approach to "basic"
247 economic analysis—value, production, exchange, price, money, capital, and
248 intervention—hasn't gotten much attention at all. Indeed, it's widely believed
249 that the Austrian approach to mundane topics such as factor productivity,
250 the substitution effect of a price change, the effects of rent control or the
251 minimum wage, etc., is basically the same as the mainstream approach, just
252 without math or with a few buzzwords about "subjectivism" or the "market
253 process" thrown in. Even many contemporary Austrians appear to hold this
254 view. Chapter 7 suggests instead that the Austrians offer a distinct and valuable
255 approach to basic economic questions, an approach that should be central
256 to research by Austrians on theoretical and applied topics in economics and
257 business administration.

258 A final chapter, "Commentary," collects some shorter essays on the nature
259 and history of the Internet, the role of the intellectuals in society, the relation-
260 ship between management theory and the business cycle, biographical sketches
261 of Carl Menger and F. A. Hayek, and a note on Williamson's contributions
262 and his relationship to the Austrian tradition. Some of these first appeared
263 as Daily Articles at Mises.org and were written for a nonspecialist audience.
264 Indeed, I think scholars in every field, particularly in economics and business
265 administration, have an obligation to write for the general public, and not only
266 for their fellow specialists. Ideas have consequences, as Richard Weaver put it,
267 and economic ideas are particularly important.

268 In preparing these essays for publication in book form I have made only
269 light revisions in the text, correcting minor errors, eliminating some redundant
270 material, and updating a few references. I think they work well together, and
271 I hope readers will see the end result as an integrated whole, not simply a
272 collection of "greatest hits."

273 I've been greatly influenced and helped by many friends, teachers, col-
274 leagues, and students, far too many to list here. Three people deserve special
275 mention, however. From my father, Milton M. Klein, a historian who taught
276 at Columbia University, Long Island University, SUNY–Fredonia, New York
277 University, and the University of Tennessee, I learned the craft and discipline
278 of scholarship. He taught me to read critically, to think and write clearly, to
279 take ideas seriously. Murray Rothbard, the great libertarian polymath whose
280 life and work played such a critical role in the modern Austrian revival, dazzled
281 me with his scholarship, his energy, and his sense of life. Rothbard is widely
282 recognized as a great libertarian theorist, but his technical contributions to
283 Austrian economics are not always appreciated, even in Austrian circles. In my

284 view he is one of the most important contributors to the “mundane” Austrian
285 analysis described above. Oliver Williamson, who supervised my PhD disser-
286 tation at Berkeley, is my most important direct mentor and a constant source
287 of inspiration. Williamson is no Austrian, but he appreciated and supported
288 my interest in the Austrian school and encouraged me to pursue my intellectual
289 passions, not to follow the crowd. His encouragement and support have been
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310 Adams, “I love deadlines. I like the whooshing sound they make as they fly by.”

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Peter G. Klein
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