

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

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

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

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

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

The essays in this volume, originally published between 1996 and 2009, deal with firms, contracts, entrepreneurs—in short, with the economics and management of organizations and markets. Chapter 1, “Economic Calculation and the Limits of Organization,” first presented in Williamson’s Institutional Economics Workshop in 1994, shows how the economic calculation

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

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

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

Chapter 7, “Price Theory and Austrian Economics,” challenges what I 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

view he is one of the most important contributors to the “mundane” Austrian analysis described above. Oliver Williamson, who supervised my PhD dissertation at Berkeley, is my most important direct mentor and a constant source of inspiration. Williamson is no Austrian, but he appreciated and supported my interest in the Austrian school and encouraged me to pursue my intellectual passions, not to follow the crowd. His encouragement and support have been critical to my development as a scholar.

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