
EDITORIAL

Entrepreneurship and Austrian Economics: Theory, History, and Future

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The field of economics is struggling. While the methods it relies on to conduct inductive, primarily quantitative and statistical, analysis are both advanced and modern, so much so that the field is leading within the social sciences, the discipline is struggling in terms of *realism*. Many modern versions of economic theory are highly streamlined and mathematically formal, and based on very strong assumptions. The model of perfect competition is a commonly used example, in which all actors have perfect knowledge of the present and future. While this makes it easy to apply formalized solutions and analyze theoretical optimums, it requires that all actors have divine foresight but only human powers.

Compared to the model, however, empirical economic research is often better. Adopting an inductive approach to find what can be revealed from the data, the field gets closer to the real economy and thus increases in terms of realism. But this happens at the expense of the field's history and, most importantly, its theoretical foundations, which are not inductive but deductive. Also, the purpose of sifting through massive loads of data is usually to attempt to predict the future, and thus these more 'realistic' approaches to studying the economy fall victim of the problem of induction.

What economics needs is to roll back to again recognize its roots and leverage the strengths of its unique approach. Rather than producing more of specialized – and unrealistic - theory or adopt more advanced methods for analyzing data, the future of economics as a valid, realistic, and useful study of society and the economy relies on undoing the errors it has committed over the past century. Core among those errors is the study, as Schumpeter ([1975](#), p. 86) put it, of economics "like *Hamlet* without the Danish prince".

Austrian economics does economics better, and the school prides itself with being the only school of thought in economics (or at least one of very few, all of them marginalized) that has a theory of entrepreneurship. While this is true, and is also a great strength of Austrian economics, the theory that deals with that is still strangely underdeveloped. It is also not a theory, but a number of different conceptions of entrepreneurship. Among them are Mises's praxeological entrepreneur as the embodiment of the uncertainty-bearing function in the economy ([MISES, 1949](#)), Kirzner's alert equilibrator ([KIRZNER, 1973](#)), and Lachmann's specifier and modifier of the capital structure ([LACHMANN, 1978](#)).

What brings these conceptions together? The literature is rather silent on answering this question, other than the obvious answer that the entrepreneur is, in Mises's word, the "driving force" of the market. Indeed, but there must be much more to say. While some have tried, such as Sautet's attempt to explain the firm using Kirzner's alert entrepreneur ([SAUTET, 2000](#)), Foss and Klein's combining of Knight's judgmental entrepreneur with Mises's economics and Lachmann's capital theory ([FOSS; KLEIN, 2012](#)), and my own discussion on how entrepreneurs create firms as a means to establish production processes that are not yet supported by the extent and structure of the market ([BYLUND, 2016](#)). But much more is needed in order to produce an actual theory of entrepreneurship.

This special issue aims to contribute toward this goal by doing two things: first, it points to the need for more theory and thereby brings this exciting field to the attention of scholars in the Austrian economics tradition. It is our hope that this special issue raises questions in need of answers as well as answers some questions already posed in the literature.

Second, the special issue provides a stepping stone for scholars on which they can build and advance scholarship toward more and better theory on entrepreneurship and the entrepreneur. These seven papers that comprise the special issue break new ground in advancing entrepreneurship theory within the larger Austrian framework. They do so in different but complementary ways:

Packard argues that there is an opportunity for Austrian economists to expand their praxeological analysis by adopting an imaginary construct of *full* human contentment: a "nirvana state of rest." Adding this construct to the Austrian analysis allows for explaining general tendencies in market processes and could therefore clarify a number of issues still insufficiently addressed in Austrian economics. Packard predicts that this "macroscopic" lens can create a more holistic study of the economy and help put an end to some ongoing quarrels among Austrians.

Thornton discusses Richard Cantillon's trailblazing use of the term "entrepreneur." The term used to refer to a person who is "active, risky, and even violent", ([2019, p. 548](#)), but Cantillon intentionally changed the meaning of the term to make it more usable for scientific purposes. Cantillon's aim, according to Thornton, was to show how markets are self-regulating and that one force behind such order is entrepreneurship as competitive profit-seeking.

Caston, Purtell, Grumbles, and Flink extend Kirzner's theory of the entrepreneur to include the process of realizing the entrepreneurial undertaking. They develop the theoretical conception of a "phantom" opportunity, which exists in the minds of the entrepreneur and

external investors in the form of a shared understanding for the opportunity that the startup is intended to pursue and exploit, that helps legitimizing the entrepreneurial project and therefore secure funding.

Hastings, D'Andrea, and Bylund build a bridge between entrepreneurship and marketing and develop a Value-Dominant Logic from a sound basis in individualism and subjectivism, which produces an Austrian version of the well-known Service-Dominant Logic. By doing so, the authors go a step beyond modern frameworks for entrepreneurial decision-making and create an interesting and realistic approach to support real-world entrepreneurs. Their framework thereby bridges the domains of theory and practice.

D'Andrea and Mazzoni address how the current approach to innovation, typically based on Schumpeterian creative destruction, is a poor fit for explaining market dynamism. In comparison, and as a suggested alternative, they adopt a market process perspective in which innovation and entrepreneurship are endogenous phenomena and can be explained using tools already available.

Vaz-Curado & Mueller produce an interesting comparison between the conceptions of entrepreneurship in Austrian economics and Schumpeter's writings. They do so using seven dimensions – economic equilibrium, entrepreneurial discovery, speculation, capital, profit, institutions, and development – through which the differences and similarities are illuminated. Interestingly, and as part of their unique contribution, the authors rely on the original 1911 German version of Schumpeter's *Theory of Economic Development* rather than, as other comparisons, the English translation.

D'Andrea and Ruettimann analyze the role of entrepreneurship in the economy and how the function relates to totalitarian regimes. They find that entrepreneurship, identified by the authors as a fundamentally human quality that cannot be eradicated, defies socialism in several ways. Consequently, entrepreneurship is an important reason why socialist economic arrangements are impossible.

To complete this special issue, there is a review by Hansen of the 2010 edited translation of Cantillon's 17th century proto-Austrian magnum opus "An Essay on Economic Theory." Furthermore, Philips and Jones review my own "Problem of Production: A New Theory of The Firm."

Individually, these seven papers and two book reviews touch on a number of issues related to the study of entrepreneurship, from theory to practice, and history of thought to new theory development. They extend specific theoretical approaches, compare known theories, and break new ground. Combined, the papers indicate the great variety of issues to which entrepreneurship is relevant, and therefore should be an important perspective for those interested in entrepreneurship and its related topics, not only from an Austrian perspective.

The implication should be clear: that entrepreneurship is not only interesting and important, but that it also offers a great opportunity for new theory development in Austrian economics and beyond. These papers provide a good starting point for budding entrepreneurship scholars as well as economists seeking to broaden their horizons. This special issue also provides provocative and fascinating arguments that should excite and inspire also experienced entrepreneurship scholars and economists.

References

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*About the Guest-Editor



Per Bylund is Assistant Professor of Entrepreneurship and Records-Johnston Professor of Free Enterprise in the School of Entrepreneurship at Oklahoma State University.

Dr. Bylund is associate editor of the *Journal of Entrepreneurship and Public Policy* and the *Quarterly Journal of Austrian Economics*, and a Fellow with the Mises Institute in Auburn, AL, and associate fellow of the Ratio Institute in Stockholm, Sweden. He earned his B.S. in corporate finance from the Jönköping International Business School (JIBS) in Jönköping, Sweden, his M.S. in informatics also from JIBS, his M.A. in political science from Lund University in Lund, Sweden, and his Ph.D. in applied economics from the University of Missouri. Prior to joining Oklahoma State University, he has held faculty positions in the Hankamer School of Business at Baylor University and the Trulaske College of Business at the University of Missouri.

Dr. Bylund is the author of *Problem of Production: A New Theory of the Firm* (2016) and *The Seen, the Unseen, and the Unrealized: How Regulations Affect Our Everyday Lives* (2016). He was co-editor (with David Howden) of *The Next Generation of Austrian Economics: Essays in Honor Joseph T.*

Salerno (2015). Dr. Bylund is currently working on two new books: *Entrepreneurship* (2021) and *Modern Guide to Austrian Economics* (2022), and he edits a book series on Austrian economics published by Agenda Publishing.

Dr. Bylund's research aims to explain the market process of prosperity-creation and economic development with a focus on organizations, institutions, entrepreneurship and management. He has published widely in top journals in entrepreneurship and management.

Furthermore, Dr. Bylund writes columns published monthly at entrepreneur.com. He is also a regular guest at the Economics for Entrepreneurs podcast published by the Mises Institute. For more information about Dr. Bylund, please visit www.PerBylund.com.