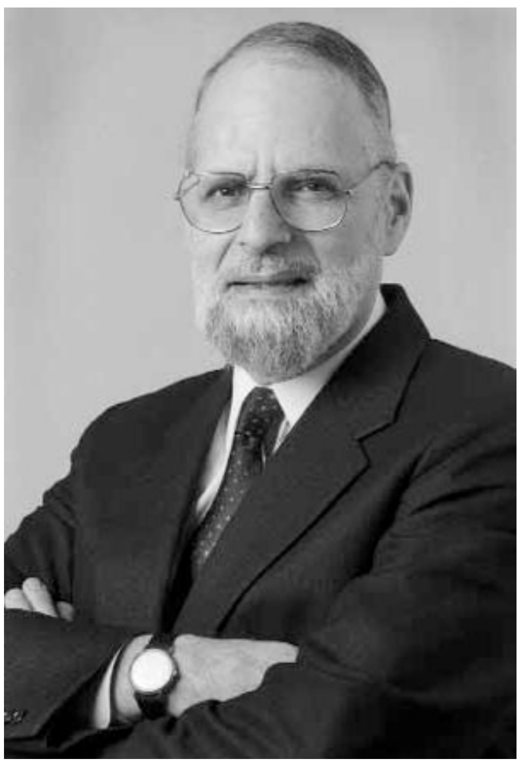
THE BEST OF THE OLL #27

Israel Kirzner, "Efficiency, Coordination, and the Market Economy" (1963)

"In a market economy these problems of coordination find their solution in the market process. The key role is played by market prices (which) guide individual decision makers toward decisions that tend to consider implicitly all the relevant conditions prevailing in the market."



Israel Kirzner (1930-)

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Israel Kirzner (1930-) is among the foremost scholars in the Austrian School of economic thought. If the first generation of 20th century Austrian economists were Ludwig von Mises (1881-1973) and Friedrich Hayek (1899-1992), Kirzner must be considered one of the leading members of the second generation, along with Murray Rothbard (1926-1995) who continued to develop Austrian insights in new directions. He studied at the University of Cape Town, the University of London, and received his PhD studying under Ludwig von Mises at New York University where he taught for many years. One of his major areas of research concerns the role of entrepreneurship in economic activity. Liberty Fund is publishing his *Collected Works* in 10 volumes.

Kirzner is best known for his work on the role of the entrepreneur as a key actor in the coordination of the market, that is to discover the best way to bring together relatively scarce resources to produce goods and services which are most in demand by consumers. When they succeed at this difficult task they are able to make profits. When they fail they make losses. One of Kirzner's key contributions to economic theory was to explain the process by which economic actors with imperfect knowledge of market conditions discover profit opportunities which did not exist before and take steps to realize those profits while at the same time satisfying the unmet needs of consumers. In his view there was no need to make unrealistic assumptions about all actors having perfect knowledge of static prices in a market which was in equilibrium.

In this chapter on "Efficiency, Coordination, and the Market Economy" Kirzner discusses the "economic problem" faced by every individual in society, namely the most effective utilization of the scarce resources at their disposal, and how the economic problems of a numberless group of individuals in a society can be coordinated in order to achieve a maximum of their different goals. Kirzner focusses on the key role played by prices in a free economy and how these prices lead entrepreneurs to find out how to best satisfy the needs of consumers in order to solve their individual economic problems.

"For a system of social cooperation, efficiency requires the coordination of separate activities. Social cooperation opens up the way to the improved fulfillment of individual wants through division of labor; but division of labor is beneficial only where carried on in a coordinated fashion. Coordination involves (a) the development of a priority system for the satisfaction of wants, (b) some way of determining the method of production to be employed for each adopted project, and (c) a way of assigning rewards to the individuals cooperating jointly in productive activities. The market simultaneously solves these coordinating problems through the price system."

Chap. 3. *"Efficiency, Coordination, and the Market Economy"* (1963)[1]

In this chapter we complete our broad preliminary survey of the theory of the market system, its operation and achievements. Chapter 2 attempted to provide a bird's-eye view of the way the market transmits economic forces through the system, tending to make the actions of all market participants dovetail more closely in the system. The present chapter demonstrates how these interactions in the market economy enable it to fulfill the basic functions of any system of organization. We are not concerned here with what the market process is or with the patterns of relationships the process consists of, but *with how it accomplishes what it is supposed to accomplish*. Some remarks are necessary to make clear, at the very outset, the point of view from which such an appraisal can be undertaken.

THE ECONOMIC PROBLEM

Social phenomena can be examined from two distinct points of view. First of all, they can be examined merely *positively*. Chains of cause and effect can be proved to exist; the likely effects of particular changes can be foretold; the probable responsibility of particular prior events for definite current phenomena can be explained. Social phenomena, however, can be examined in addition from a *normative* point of view. The way prior causes bring about subsequent events can be *judged* by the success with which the process fulfills definite *goals* (believed by the investigator to be cherished by someone concerned with the usefulness of the process). A breakdown in a commuter bus service may be seen *positively* as responsible for highways swarming with an unusual number of private cars. It may be "blamed"—*normatively*—for the inconvenience experienced by those who use the bus service for a convenient means of transportation.

The economic theorist, too, is able to view his subject matter from both these perspectives. He may simply trace through the operation of market forces. Or he may, in addition, appraise the market from the perspective of one or other aspects of the "economic problem." Although the concept of an economic problem is most frequently discussed with respect to an entire society, the idea is fundamentally one relating to the individual. For an individual, the economic problem consists in ensuring that the resources at his disposal be utilized in the most effective manner possible—from the point of view of the goals which he has set up. Successful solution of this economic problem requires that the individual apportion resources to promote his various adopted goals in a pattern that will faithfully reflect the hierarchy of importance to him of the various goals. If he desires goal A more urgently than goal B, and the available resources are insufficient for both goals, a "correct" solution of the economic problem requires that he allocate his resources to A rather than to B; and so on.

"For an individual, the economic problem consists in ensuring that the resources at his disposal be utilized in the most effective manner possible—from the point of view of the goals which he has set up."

From the perspective defined by the goal of correctly solving his economic problem, an individual may judge his actions as being either efficient or otherwise. From the point of view of his own chosen goals, considering the varying degrees of urgency that he has assigned to these goals, the individual may frown at a particular course of action as being at variance with his goal program. Such a course of action is "inefficient," "wasteful," and "irrational"; it fails to aim at the most important of the chosen goals.

The goal of "efficiency" is not really a separate goal in its own right. Efficiency is nothing else, in the present context, than the consistent pursuit of other goals. Consistency in the pursuit of goals calls for a refusal to apply resources to achieve one goal when this implies forsaking a still more highly cherished goal. Inefficiency is thus synonymous with inconsistency. An

[1] Israel M. Kirzner, *Market Theory and the Price System*. Edited and with an Introduction by Peter J. Boettke and Frédéric Sautet (Indianapolis: Liberty Fund, 2011). Chapter 3: Efficiency, Coordination, and the Market Economy. <oll.libertyfund.org/title/2491/244683>.

inefficient course of action is one that is inconsistent with a given program of goals. A course of action that is inefficient with respect to one set of goals may be highly efficient with respect to a different set. But the point is that, in making plans, individuals have in mind given sets of goals. With respect to *this* set of goals, they seek a consistent, efficient course of action.

SOCIETY AND THE ECONOMIC PROBLEM

Economists frequently speak of the economic problem facing society. What they usually have in mind is something closely similar to the economic problem faced by individuals. But the legitimacy of this interpretation of the term "economic problem" is by no means clear, and the limitations on its use in this sense must be understood. Discussions that deal with the economic problem facing society assume a group of human beings, on the one hand, having numerous different desires for consumer goods and services and, on the other hand, having command of a body of productive resources. The economic problem facing the society is, once again, that of securing *efficiency*. The problem consists in constructing an organized social system that will most efficiently utilize the limited resources of "society" for the satisfaction of the desires of "society" for consumer goods and services. Once again a successful solution of this problem calls for "consistency"—a pattern of activity and production that should faithfully reflect the respective weights assigned to each of the goals that it is desired to satisfy. [1]

"Each individual can be viewed as independently selecting his goal program. And in a market economy especially, each individual adopts his own courses of action to achieve his goals."

The limitations surrounding this use of the term "economic problem" arise from the fact that society is made up of numerous individuals. Each individual can be viewed as independently selecting his goal program. And in a market economy especially, each individual adopts his own courses of action to achieve his goals. It is therefore unrealistic to speak of society as a single unit seeking to allocate resources in order to faithfully reflect "its" given hierarchy of goals. Society has no single mind where the goals of different individuals can be ranked on a single scale.

Nevertheless, there is a sense where one form of societal organization can be termed "more efficient" than another. For example, a market economy, as we shall see, is unquestionably more "efficient" than a system of self-sufficient individual "economies," because each *individual* shows by his voluntary participation in the market that he is better off under the former than the latter. Thus, each individual finds he can most efficiently solve his own economic problem by cooperating with other individuals through division of labor and the market. Any form of voluntary social cooperation emerges only because *each* participant seeks in this way to further his *own* goals. If he participates in a social system of any kind, he does so in the interests of his own efficiency; his participation is a method of solving his own economic problem.

We will be speaking of the efficiency or inefficiency of a social system in this sense. We are not invoking the notion of a society having *its* goals in any sense apart from the goals of the individuals making up the society. Efficiency for a social system means the efficiency with which it permits its individual members to achieve their several goals.

THE PROBLEM OF COORDINATION

However, when individuals seek to fulfill their purposes through some form of social cooperation, the efficiency of the social system in the above sense depends on the degree of *coordination* with which the separate activities of the participants are carried on. The cooperation of individuals requires that their actions fit into an overall pattern of organization. The fundamental point is that the source of the advantages of social cooperation over individual autarky exists in the possibilities that social cooperation opens up for *specialization and division of labor*. It is efficient, for example, to participate in a market economy (instead of being a self-sufficient Robinson Crusoe) because the value of one's specialized services to the market is higher than the value of all that one could produce by spreading one's efforts over numerous branches of production for one's own consumption.[2]

Now, the very factor *specialization*, which can make social cooperation "efficient" for each of the cooperating individuals, *itself* introduces problems upon whose successful solution the worthwhileness of specialization depends. Clearly, if everyone specialized in the same kind of production, specialization would be worse than useless. A social system will emerge only if the system promises individuals a way of cooperating with others *in an efficient way*; that is, only if the system *coordinates* the specialized activities of the participants.

"A social system will emerge only if the system promises individuals a way of cooperating with others in an efficient way; that is, only if the system coordinates the specialized activities of the participants."

In this chapter we discuss the market economy with respect to the way it coordinates the activities of its participants. We do not "judge" the degree of success that the market economy attains in this regard either as compared with other economic systems or as to its own "efficiency." We are concerned with finding out *how* the patterns of relationships existing in the market process succeed at all in organizing numberless, independently planned actions into a social system that efficiently serves the purposes of its participants.

The general problem of coordination can be reduced, for a market economy, into a number of fairly distinct special problems. First, we will outline these problems, and then proceed in subsequent sections to discuss how these problems are solved by the market.

1. The economy must somehow or other develop a system of "priorities" governing *what goods and services should be produced*. Resources are clearly insufficient to produce everything that the participants would like to enjoy. There must be some way to decide on the kinds and quantities of products to which resources should be allocated; this involves the notion of "priorities." If Mr. Smith wants a new coat, and Mrs. Jones wants a new dress, then there must be some method of *ranking* these two wants so as to guide producers in making their decisions as to what to produce. If one viewed society as having wants that, in principle, can be ranked on a *single* scale of absolute "importance," then this problem would be simply that of discovering this ranking. Such a view of things recognizes the possibility of declaring Mr. Smith's need for a coat to be somehow or other more or less "urgent" *from the standpoint of society* than Mrs. Jones's need for a dress. Efficiency in the operation of the economy requires that, in this view of things, the system find out *which* want is the more urgent and then direct producers to give it corresponding priority.

But even when it has become clear that no objective way exists of determining the relative importance of the wants of different individuals "from the point of view of society" in any such *absolute* sense (if any meaning at all can be attached to this term), the problem of ranking must and can be solved. For participation in a market economy to be attractive, individuals must be assured that *some* reasonably satisfactory—and definite—method will be used to assign priorities to the wants of all the different participants. From the point of view of coordination, participants must be assured that the decision of any individual entrepreneur to produce a given commodity is consistent with this priority system. The priority system used need not be able to lay claim to the achievement of ultimate justice or fairness. Participants must merely be convinced that the degrees of importance that the market attaches to different wants are such as to make the market system profitable from their own individual points of view.[3]

"Coordination involves (a) the development of a priority system for the satisfaction of wants, (b) some way of determining the method of production to be employed for each adopted project, and (c) a way of assigning rewards to the individuals cooperating jointly in productive activities."

2. A second problem of coordination relates to the way resources are combined to produce those goods or services to which priority in production has somehow been assigned. Once it has been decided that a certain good is to be produced, the next step is to decide on the *method of production to be used*. Very often there are a number of different methods of production that are technically capable of yielding a desired commodity. Drinking water can be brought from the mountains or extracted from the sea. The economic system requires a device that will guide the producer of the commodity to use the most efficient method of production—efficiency in production being measured with respect to the economy as a whole. The "correct" method of production means the correct combination of resources. The correct combination of resources used to produce a given commodity will leave as a remainder, out of the entire available stock of resources, that body of resources able to produce the greatest quantity of goods in their order of priority. In other words, production is carried on efficiently, from the viewpoint of society, when it interferes least with the rest of production.

Clearly, with innumerable producers making independent decisions as to production techniques, the economy must *coordinate* these decisions so as to ensure that each producer uses those resources least needed elsewhere in the economy. Just as products can be produced in different ways, so resources can be used to produce different products. It is in the interest of *each* market participant that each unit of each resource be directed toward the production of that product where it will be used most efficiently—in the sense stated above.

3. The essence of the market economy is specialization and division of labor in production; production, moreover, invariably involves the cooperation of the productive services of several different resources. For both these reasons it follows that, in a market economy, resources are generally used in processes of production which go to satisfy the wants of others than the owners of the resources themselves, and/or do not permit the productive contribution of any particular unit of a resource to be distinguished or identified. A truck driver transports food from one city to another. He himself may need very little of this food; and it is quite impossible to identify what portion of the utility of transportation is attributable to his services, what portion is attributable to the truck, to the highways, and so on. All this creates a problem of compensating each participant in the system for his productive contribution as a resource owner (or entrepreneur). If an individual is to participate in the economy, some definite system must exist, which will ensure that he will receive a share of what is being produced.[4] An efficient system will provide sufficient reward to each participant to enable all participants to enjoy the benefits of the widest possible range of resource services.

HOW THE MARKET SOLVES THE PROBLEMS OF COORDINATION

"In a market economy these problems of coordination find their solution in the market process. The key role is played by market prices. ... Market prices guide individual decision makers toward decisions that tend to consider implicitly all the relevant conditions prevailing in the market."

In a market economy these problems of coordination find their solution in the market process. The key role is played by market *prices*. The reasonable success that a market economy is able to attain in the solution of the three coordination problems outlined in the previous section is the consequence of a market process that determines prices. Market prices guide individual decision makers toward decisions that tend to consider implicitly all the relevant conditions prevailing in the market.

Thus, the *single* process that determines the course of the various prices in a market continuously works toward the simultaneous solution of the three problems of coordination. These three, analytically distinct tasks are fulfilled as aspects of the *same* market process market prices emerge from. This will become apparent in the following paragraphs as we discuss the different aspects of the market solution.

1. In a market economy the task of production is carried out by entrepreneurs in search of profits. Where an entrepreneur has the choice of producing two products at equal cost, he will produce that which promises to sell for the highest price. Thus, *priorities* in a market economy are assigned to different goods by the process that determines their *prices*. Where equivalent combinations of resources can produce different products, it is the product that can command the highest market price that top priority is automatically assigned to.

Much of our study is concerned with the process by which the market price of products is determined. Generally, it is obvious even at this point, however, that those products for which consumers are prepared to undergo the greatest pecuniary sacrifice will tend (other things being equal) to command the highest prices; so thus, the market tends to consider these products as socially more "important." Resources will tend to be purchased by entrepreneurs for use in the production of the relatively higher-priced goods. Changes in the urgency with which consumers are anxious to obtain specific goods will tend to be reflected in changes in their prices and hence in the priority that the market attaches to their production. The more responsive the price system is to changes in consumer preferences, the more accurately will the decisions of producers be in conformity with the priority system based on pecuniary sacrifice.

"The more responsive the price system is to changes in consumer preferences, the more accurately will the decisions of producers be in conformity with the priority system based on pecuniary sacrifice. This kind of priority system is frequently described as consumer sovereignty."

This kind of priority system is frequently described as *consumer sovereignty*. It is the consumers' acts of purchase, translated into market forces, which determine market prices, and thus give directions to the producers as to what should be produced. Changes in consumer preferences, which are responsible for the price changes, compel producers to alter their production processes. Any non-market obstacles placed in the way of the pricing process thus necessarily interfere with the priority system that consumers have set up. It must always be borne in mind that such a priority system cannot necessarily lay claim to any kind of *ethical* excellence. All that can be claimed for the priority system is that it offers potential market participants more attractive alternatives than are available to them otherwise.

2. That production in a market economy is undertaken for profit also has definite consequences with respect to the second task of coordination. When a given product can be produced by different methods of production, it is most profitable to use the cheapest method of production. The entrepreneur will therefore tend to use this method of production. The cheapest method of production is that which requires the smallest expenditure for the resources used. Whether or not one production process is cheaper (and therefore more likely to be employed) than another depends not only on the quantities of resources required for the processes, but also on their *prices*. The market value of different resource combinations influences the decisions of producers to use more machinery or less, more skilled labor or less, a larger plant or a smaller, and so on.

Now, as with the prices of products, the analysis of the determination of the prices of resources must wait until later chapters in this book. But generally it is not difficult to see what factors are at work in the determination of resource prices, and to appreciate how these factors relate to the coordination problem of securing the use of "socially efficient" methods of production. Market prices are the basis of cost calculation by producers. The price of each resource tends toward the point where all supplies of the resource available at this price are bought by producers.[5] Producers tend to bid up resource prices in order to secure resources for the production of given products for as long as it is profitable to do so; thus, at the market price, the resource will be used by producers of those products in whose production the resource yields greatest profits. Producers bidding for the resource to produce a product in which the resource will be relatively *less* profitable will soon find it impossible to compete with the producers of more valuable products. In buying the cheapest resources (among all those resources that are for him technically equivalent), the producer will therefore tend to be buying those resources *least* valuable elsewhere in the economy—"valuable," that is, in the sense of being able to cater to consumer wants having higher (pecuniary sacrifice) priority.

"It cannot be expected that at any one time the market process should have succeeded in securing complete coordination of decisions concerning methods of production. … So long as the market is competitive the existence of such opportunities for increased efficiency will tend to be discovered and exploited by profit-seeking entrepreneurs."

It cannot be expected, to be sure, that at any one time the market process should have succeeded in securing *complete* coordination of decisions concerning methods of production. Inevitably, at any one time, certain processes of production will be carried on using resources some units of which could be used more valuably in other production processes. So long as the market is competitive, however, the existence of such opportunities for increased efficiency will *tend* to be discovered and exploited by profit-seeking entrepreneurs. The market process will constantly tend to rearrange and reshuffle the allocation of productive resources so as to conform more closely with the most recent changes in the patterns of available resources and consumer preferences.[6]

3. The price system a market economy has its setting in is responsible also for the solution of the third problem of coordination, that of determining the individual rewards to be received by each of the resource owners cooperating in the productive process. This function is fulfilled as a different aspect of the same pricing process that determines resource allocation and the organization of production. Resource owners selling the services of their resources in the market secure prices that are determined by the interaction of resource supply and entrepreneurial demand. Acting in their capacity of consumers, the resource owners will in turn use the money prices, which they receive in the resource markets (their "incomes"), to buy goods in the product markets. Thus, the market value of the goods and services a consumer can buy with his income is determined by the value that the market places upon the services that, in his capacity of resource owner, he has furnished to the production process.

The real incomes received by consumers are therefore determined by the *prices* that emerge in the market for the services of the various resources. In general, the price of a resource depends on its productivity in the different branches of production. When a resource owner is otherwise indifferent to the use his resource will be applied to, he will sell its services to the highest bidder. The highest bidder will tend to be that entrepreneur to whose profit calculations the services of additional quantities of the resource add most. The market process therefore tends to ensure the apportioning of rewards among cooperating resource owners in a way that attracts resources to their most productive uses. At the same time each individual resource owner participating in the market process is able to enjoy the fruits of the production of the market to an extent depending on the usefulness to the market of the productive services that he is willing to supply on these terms. That portion of production that is not earned by resource owners is received by entrepreneurs as pure profit. We now consider briefly the factors that determine the size of profits, and especially the coordinating functions that profits fulfill.

THE COORDINATING FUNCTION OF PROFITS IN A MARKET ECONOMY

In the previous sections it was seen that the market process simultaneously solves the three fundamental problems of economic coordination through the price system. The emergence of a price structure reflects a priority system that guides resources to (what this priority system pronounces to be) their most productive uses. But the price system is not "automatic"; it functions only as the expression of human actions. In particular the price system is the expression of entrepreneurial decisions consciously planned and executed. Entrepreneurial decisions are made with the purpose of winning profits.

Profits are to be won whenever something can be sold for a price higher than the price it can be bought at (or higher than the sum of the prices of everything needed for its production). For an entrepreneur to win profits it is necessary, *first*, that such a price discrepancy exist; and *second*, that the entrepreneur know that it exists. Now, for a price discrepancy to exist, it is necessary that those willing to sell the commodity (or the factors necessary for its production) for the lower price and those willing to buy the commodity at the higher price be unaware of each other's attitudes. If these sellers and buyers knew each other's attitudes, these would soon be altered to eliminate the price discrepancy. The entrepreneur wins profits by becoming aware, earlier than others, of the hitherto unknown discrepancy (reflected in the price differential) between the attitudes of those willing to sell for less and of those willing to buy for more.

It is the characteristic of the real world to which the analysis of market theory may be applied that, at any one time, numerous instances occur of the kind of ignorance that makes it possible for price discrepancies and profits to emerge. Each market participant knows some of the market facts relevant to his own situation, but is ignorant of a great many more. Among the alternatives from which Market Participant A believes he has to choose, some particularly attractive alternative is usually missing (obtainable by dealing with Market Participant B) which might have been included if only A and B would have known of each other's situation and attitude. From the point of view of an imaginary, disinterested outsider knowing all these facts, both A and B are the losers due to their ignorance of some market facts. *From the point of view of the omniscient outsider*, the market *always* has room for a reshuffling of resources or goods according to the pattern that would take place if the market participants themselves were not in ignorance of the opportunities available to them.

It is here that we can see the essential character of the coordinating functions performed by the market process. The market process tends to present market participants with alternatives that approximate those opportunities they would choose if they possessed all the relevant information. The market process achieves this *without* making it necessary for market participants to learn all this detailed information. Instead, the market reveals any lack of coordination resulting from ignorance by market participants of potentially available opportunities through the emergence of price discrepancies. Ignorance of available opportunities then equates to ignorance of price discrepancies. Where this kind of ignorance persists, the opportunity exists for the first discoverers of the price discrepancy to step in and win profits. In doing this they wipe out the price discrepancy itself, and thus remove the lack of coordination that resulted from the limited market knowledge of market participants.

"The market process tends to present market participants with alternatives that approximate those opportunities they would choose if they possessed all the relevant information. The market process achieves this without making it necessary for market participants to learn all this detailed information. Instead, the market reveals any lack of coordination resulting from ignorance by market participants of potentially available opportunities through the emergence of price discrepancies."

The quest for profits thus serves as a complete substitute for the search for conditions where ignorance exists on the part of market participants of the opportunities available to them. In the quest for profits the latter search has been replaced by a simple search for price discrepancies. Wherever discrepancies exist between prices paid for identical goods, or between prices paid for goods and those paid for everything required for their production, then the imaginary omniscient economist could point out possibilities for reallocation of goods or resources that would benefit all concerned. The market tends to act to achieve precisely this reallocation by offering prizes (profits) for the detection and removal of price discrepancies. It is thus the activity of the entrepreneur in his search for profits that serves as the driving force of the price system, enabling it to solve the problems of coordination outlined in the previous sections of this chapter.

SUMMARY

Chapter 3 examines the operation of a market system, with respect to the way it achieves the goals or functions that its participants may seek to fulfill through this means of social organization.

An "economic problem" consists for an individual in ensuring that the resources at his disposal be utilized in the most effective manner possible, from the point of view of his own cherished goals. With some reservations, it is possible to speak of an economic problem facing society in general, and of the "efficiency" with which a form of social organization fulfills the goals set for it.

For a system of social cooperation, efficiency requires the coordination of separate activities. Social cooperation opens up the way to the improved fulfillment of individual wants through division of labor; but division of labor is beneficial only where carried on in a coordinated fashion. Coordination involves (a) the development of a *priority system for the satisfaction of wants*, (b) some way of determining the *method of production* to be employed for each adopted project, and (c) a way of *assigning rewards* to the individuals cooperating jointly in productive activities.

The market simultaneously solves these coordinating problems through the *price* system. Prices determine the priority with which the various possible products will be produced on the basis of consumer demand working through the entrepreneurial search for profits. The same process guides entrepreneurs to the employment of definite methods of production (those which can achieve a given result at the lowest money cost). At the same time the pricing process assigns prices to the services of those cooperating in production. The driving force in the process is thus the entrepreneurial search for profits, leading to the production of products commanding the highest prices (for given production costs) and to the employment of the resources involving least cost (for a given productive purpose).

Notes

[1.] This statement of the nature of the economic problem facing a society is worthy of notice. Most nineteenth-century economists (and many laymen today) use the adjective "economic" to denote a relationship to *wealth* (more or less carefully defined). Most economists today, however, recognize that the term "economic problem" is fundamentally suited to denote the problem discussed in the text.

[2.] The classic statement of the advantages to be derived from the division of labor is in the opening chapter of Adam Smith's *Wealth of Nations*. See also Mises, L. v., *Human Action*, Yale University Press, New Haven, Connecticut, 1949, pp. 157–164.

[3.] The notion of priority in satisfying the wishes of market participants should be interpreted very broadly. Under this heading should be included, for example, at least part of the function frequently assigned to an economic system of providing for growth. Insofar as growth involves a problem of resource allocation (for example insofar as it involves denying Mr. Smith's wants today in order that Mrs. Jones's grandchildren should enjoy a better life in the future), the market must determine the rate of growth of the economy on some basis of priorities. It is also true that the priority attached by consumers to present consumption over future consumption may be such that no growth at all (or even economic decline) may be the most "efficient" outcome.

[4.] From a short-run viewpoint this coordinating problem is frequently seen as the problem of *distributing* the national product. Some of the early economists saw the principal task of economics as being the elucidation of the laws governing distribution.

[5.] The sentence in the text needs to be qualified to some extent. It is possible that a resource is so plentiful or so low in productivity that even if the price falls to practically zero, it does not pay to employ the entire supply for production.

[6.] See more on this point in Ch. 13.

Further Information

Source

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Further Reading

Other works by Israel Kirzner (1930-) <oll.libertyfund.org/person/199>.

School of Thought: The Austrian School <oll.libertyfund.org/collection/8>

"The distinctive principle of Western social philosophy is individualism. It aims at the creation of a sphere in which the individual is free to think, to choose, and to act without being restrained by the interference of the social apparatus of coercion and oppression, the State."
[Ludwig von Mises, "Liberty and Property" (1958)]

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