

Creativity, Entrepreneurship, and Consumer Policy

By Auke R. Leen*

Leiden University, Faculty of Law, Departments of Economics

I. The "New Things" of *Centesimus Annus* Ask for Creativity and Entrepreneurship

With his ninth encyclical *Centesimus Annus* Pope John Paul II pays homage to the hundredth anniversary of *Rerum Novarum*. In *Centesimus Annus* John Paul II extends the thoughts over the market economy of his predecessor Pope Leo XIII to the "new things" of our time. A central feature of modern time is the growing importance of human beings in production processes. In early times natural fertility of land was the most important production factor. Later capital, i.e., machines, took over this role. In our time human beings are central, their creativity and entrepreneurship are paramount in production processes (John Paul II 1991, pp. 26-27). Not all people, however, do have the means to participate effectively and in a way worthy to their humanity in modern production processes. Consequently, John Paul II makes a plea for more creativity and entrepreneurship at all levels, especially the lower levels, within a firm.

If more creativity and entrepreneurship is demanded of human beings in their capacity as wage-recipients (producers) there is no reason to deny this to them in their capacity as wage-spenders (consumers). Are not, as John Paul II in *Centesimus Annus* stresses, other new things of our advanced society the rise of a consumption mentality and problems in choosing new needs and new ways of satisfying them (John Paul II 1991, p. 30)? Consumer decisions are central in modern society. Besides, consumption and production are not words pointing to a classification of real living human beings. Consumption and production are analytical categories of action. A human being is no split personality: he is one and indivisible, he is a consumer in the same way as he is a producer. So the questions arise (1) How does capitalism allow for the creativity and entrepreneurship of the consumers? And (2) Can consumer policy enhance or does it, just the opposite, only stifle consumer's creativity and entrepreneurship?

II. *The Capitalistic Market Economy Is Detrimental to Creativity and Entrepreneurship*

In his book *The Joyless Economy, An Inquiry into human satisfaction and consumer dissatisfaction*, Tibor Scitovsky argues that capitalism is detrimental to the creativity and entrepreneurship of the consumers. Of course it can be maintained that if people want variety, capitalism can supply it. Is not the market but a huge voting-machine in which the dollars spent by the consumer can be counted as votes? This may be true, and is captured in the notion of consumer sovereignty, but mass production also entails the notion that "almost nothing gets produced that cannot be produced in the thousands" (Scitovsky 1976 p. 7).

The essence of capitalism is mass production. The division of labor in a capitalistic market economy makes possible an enormous increase of productivity. Economics of scale imply that commodities can be more cheaply produced for many people than for few. In order to make a profit sellers will try to cater to desires which everybody shares. These desires are the more simple ones. The tastes of the crowd are imposed on the whole society, which leads to standardized and homogeneous products. "The monotony of mass-production work is fully matched by the monotony of its product" (Scitovsky 1976, p. 249).

Following Scitovsky, it appears that not only the market economy but also market theory plays down the consumers yearning for novelty. Economic theory is build on a one-sided psychological image of man. Psychologist postulate an optimum level of arousal (level of excitement) caused by stimulation. Deviations of the optimum level in an upward direction cause feeling of tension, fatigue and pression. Deviations of the optimum level in a downward direction cause feelings of emptiness and boredom. Deviations lead to attempts to restore the optimum level of stimulation.

Arousal reduction has become less problematic in a rich, capitalistic society. There is a lot of what Scitovsky calls comfort: specific needs who are satisfied. Economists have restricted their theoretical approach to arousal reduction caused by feelings of pain, hunger, thirst, coldness, and heat. "[T]he economist's model of consumer behavior ... comes closest to that half of the psychologist's theory" (Scotovsky 1976, p. 30). But the capitalistic society still has a much more general lack of novelty

and stimulation. This second important motive of human behavior with respect to consumption, i.e. the longing for new things, for stimulation and variety, is neglected. The fact that the mass market does not stimulate the consumer has serious consequences. "The yearning for new things and ideas is the source of all progress, all civilization; to ignore it as a source of satisfaction is surely wrong" (Scitovsky 1976, p. 11).

III. Consumer Policy Emphasizes Maximization

If, as Scitovsky maintains, the capitalistic market economy fails in stimulating creativity and entrepreneurship what role does consumer policy play in enhancing creativity and entrepreneurship? What are the roots and essence of consumer policy?

A. The Roots

Since the early beginnings of economic science the welfare of the consumer takes a central position. Economic processes start and end with consumers. Consumption is, according to Adam Smith, the sole end of all production. The interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. Policies to strengthen the functioning of the market, however, did concern the consumer only indirectly or, if directly, on an ad hoc, temporary base. We may think of rationing devices in situations of extreme scarcity or the prescription of certain product qualities, e.g. food quality, in the case of dangerous products. From the 1960s onward, however, the aim of consumer policy is a systematic and direct improvement of the position of the consumer on the market.

The motivation for consumer policy is based on either one or both of the following reasons. First, consumer sovereignty is absent in present-day society. The will of the consumers is no longer fundamental for production decisions. Second, in choosing consumers are confronted with a highly

complicated, nontransparent market. The consumer faces a situation of information shortage as well as one of information overload (Imkamp 1986, p. 235).

The first reason goes along the following lines. Full sovereignty of the consumer implies a complete servitude of the producer to the consumer. The consumer king, however, is capricious and unpredictable in his behaviour. To secure their capital investments, producers try to plan production and distribution. Through all kinds of sales effort the producer tries to secure its existence. The consumer feels his impotence. He feels himself played upon by the producer. Consumer sovereignty becomes an empty word.

The second reason emphasizes that the consumer also feels a certain discomfort in choosing from all the available, constantly growing and changing, products and services. The present-day consumer is confronted with a rich but by its magnitude and variation nontransparent assortment of goods. Product information is mainly given by the producers and is, consequently, one-sided. In choosing the consumer is stifled by information dependence. The market for consumer goods is highly nontransparent.

Consumer policy tries to answer these feelings of impotence and discomfort. The first reason, lack of consumer sovereignty, gives rise to a top-bottom motivation of consumer policy. Aims are deduced from certain basic values or needs of the consumer (Kuhlmann 1990, p. 60). Consumer policy becomes the protection of individual rights in the economic context. Taken after President Kennedy's presidential address of 1962, these rights are (1) the right to safety, (2) the right to be informed, (3) the right to choose, and (4) the right to be heard. The implementation of these rights must restore the equality in the producer-consumer relationship.

The second reason, consumer feelings of discomfort, gives rise to a bottom-top motivation of consumer policy. Inductive methods show consumer complaints, in aggregated form they build up the aims of consumer policy. One of the purposes of the inductively formed aims is to restore the market transparency of the consumers. Consumer policy tries "to insure that all consumers obtain what they really want (were they fully informed), subject to the limitation of their income" (Maynes 1979, p. 97).

B. *The Essence*

What measures are taken to strengthen the position of the consumer on the market? Some measures are primarily aimed at changing the behavior of the producer, others at changing the behavior of the consumer. In both fields measures try to protect or inform the consumer. The overall aim of the measures is to secure that no unreasonable physical and economic risks fall on the consumer.

For physical safety, protection means bans on certain dangerous products and, for other less dangerous products, technical standards specifying acceptable safety standards. For economic safety, protection means, e.g., regulation of the information content of advertising, or regulation of one-sided producer formulated standard contracts. Furthermore, there are subsidies for comparative testing, mandatory informative labelling, and quality certification (Thorelli and Thorelli 1974, p. 2). All these measures aim at better consumer information: they try to increase the market transparency for the consumer.

The common denominator of all measures is that somehow the ends-means relationship is supposed to be already known to consumers and government officials. The essence of consumer policy is (1) to increase the efficiency of the known (household) production process, and (2), in cases of conflict between certain ends from an individual or social perspective, to influence the ends of the consumer household. But given a socially accepted hierarchy of ends these latter policies are in a certain sense also only trying to ensure the efficiency of the household production process (Kuhlmann 1990, pp. 5-6).

Consumer policy tries to reduce the known transaction costs of a consumer transaction in terms of physical and economic risk. The government claims to know which products are unequivocally dangerous and ought to be banned and what the minimally acceptable safety standards are. The government also claims to know the standard price, standard quality, standard contract terms, the relevant product characteristics in comparative testing, and the relevant product characteristics for the product labels.

The theoretical motivation behind consumer policy is taken from the predominant, standard neoclassical market model. In neoclassical theory the consumer is a maximizer: action follows from an optimal choice in a given and known ends-means relationship. Maximization includes situations of measurable uncertainty that can be reduced with search. Because, in reality, the consumer is confronted with an information gap as well as, just the opposite, an information overload, the essence of consumer policy is to direct or restrict the choices of the consumers. Prices per standard quantity and comparative testing, for instance, increase the market transparency for the consumer and direct the choices of the consumers. Laws putting limits to interests rates or prescribing standard rules, on the other hand, restrict the choices of the consumers.

In other words, consumer policy tries to realize the conditions of the neoclassical market model in terms of full knowledge, market transparency, and the homogeneity of goods. It is captured within a given and known ends-means relationship.

IV. *Erring People Depend on Creativity and Entrepreneurship*

Next to the well-known neoclassical market model there is the far less-known Austrian market model. At the centre of this market model is the process of conceiving the ends-means relationship. The consumer and producer are more than mere calculators, they are venturing, innovating, exploring, and searching for new means and new ends.

The essential difference between the neoclassical and Austrian market model is the different understanding of the concept of error and the role of error itself in a market economy. Contrary to the neoclassical market model, consumer problems are not always to be attributed to inadequate resources or to a faulty institutional structure. There is also the possibility of sheer error: opportunities costlessly available are overlooked. Let us take a closer look at older and modern Austrian economics to see how the concept of an erring individual has developed.

A. Austrianism: a Geographical and Pejorative Label

In the 1880s German professors attached the epithet 'Austrian' to the economic theories of Menger, Böhm-Bawerk, and Wieser. It was a pejorative epithet bestowed by disdainful German economists. Why was it a pejorative epithet, and what was the reason for their disdain?

As far as the epithet Austrian relates to a geographical area it is justified because of the historic fact it was founded and first elaborated by three Austrians, holding chairs at the universities of Vienna, Innsbruck, and Prague. In 1871 Carl Menger published his *Grundsätze der Volkswirtschaftslehre* (Principles of Economics). Until the end of the seventies, however, there was no Austrian School: there was only Carl Menger. Later on Menger was joined by two younger economists, brothers-in-law, Eugen von Böhm-Bawerk and Friedrich Wieser. They became the enthusiastic supporters of the new ideas put forward in Menger's book.

The pejorative overtone of the predicate Austrian was the result of another historic fact: never before had any new mode of thinking originated in Austria. "For people who were not familiar with economics, the predicate 'Austrian' as applied to a doctrine carried strong overtones of the darkdays of the Counter-Reformation and of Metternich. To an Austrian intellectual, nothing could appear more disastrous than a relapse of his country into the spiritual inanity of the good old days" (Mises 1969, p. 14).

The German economists attached the smear to Menger and his followers because for them Austrian economics meant backwardness. Both the Germans and the Austrians attacked classical economics. The Germans were appealing for an alleged modern historical approach. Menger, on the contrary, although he wanted to rebuild the foundations of economic science too, retained the abstract, theoretical character of economics. The clash over methods is known as the *Methodenstreit*.

B. Older Austrians

Menger's theory turned the value theory of the classicals upside down. The classical Ricardian theory held that the normal value of consumption goods was determined by their cost of production. Menger's theory, on the contrary, held that the cost of production itself is ultimately determined by the value of consumption goods. Labor is not the source of value, but is a means to value. Value was no longer to be seen as governed by past resource costs but as expressing judgements concerning future usefulness in meeting consumer wants (Kirzner 1987, p. 146). In making these judgements, Menger, according to William Jaffé, describes man not as a "lightning calculator" but as a "bumbling, erring, ill-informed creature, plagued with uncertainty, forever, hovering between alluring hopes and haunting fears, and congenitally incapable of making finely calibrated decisions in pursuit of satisfactions" (Jaffé 1976, p. 521). Menger's theory came to be known as the subjective theory of value.

The classical objective value theory was a second best solution to the problem of how prices are determined. Classical economists "were fully aware of the fact that prices are not a product of the activities of a special group of people, but the result of an interplay of all members of the market society" (Mises 1966, p. 62). But because of the problems encountered in the famous value paradox they considered the activities of the producer only.

According to the Austrians, value is in the mind of individual man, who chooses and maximizes, for whatever reason, his profit or utility. From the interaction of the valuations of the consumers flows the market demand. The market supply of the producers is determined by the expected demand. The interaction of demand and supply determines the market price. By offering a more satisfactory theory of demand, the subjective or marginal theory of value was more comprehensive than the classical theory, which last theory emphasized the activities of the producer only.

C. *Modern Austrians*

In modern Austrianism, the post-World War II continuation of the Austrian tradition, the two central figures are Ludwig von Mises and Friedrich Hayek. Israel Kirzner (1986 p. 134 and 152) describes modern Austrianism as an authentic extension of Menger's older static subjectivism: a consequent dynamic subjectivism. Mises and Hayek focus in their theories on market adjustment processes. For Kirzner, building his theory along the lines of Mises and Hayek, one of the greatest failures of neoclassical equilibrium analysis is it takes for granted that an equilibrium is actually brought about. For instance, in a disequilibrium would be buyers who have returned home empty handed should learn that it is necessary to outbid other buyers, and buyers who have paid high prices should discover that they could have obtained the same goods at lower prices (Kirzner 1973, p. 14). The real problem is to describe the possible realization of an equilibrium as the result of "the systematic way in which plan revisions are made as a consequence of the disappointment of earlier plans" (Kirzner 1962, p. 381).

Neoclassical equilibrium theory cannot describe endogenous changes in the end-means framework: its maximization scheme is not fit for the task to generate systematic modifications of choices. The allocation model suffers from a discontinuity in the succession of decisions. Only an exogenous change in the data, e.g., in tastes, in technology, or in information, can generate a new decision, a decision unexplainable in terms of the original framework. Without exogenous changes there is no 'choice-theoretic' explanation why yesterday's plans are replaced by today's.

Mises and Hayek made it possible to describe the adjustment process as a systematic sequence of decisions. Mises' extension of subjectivism was to describe the individual decision unit not only as maximizing but also as finding out the relevant ends-means relationship. This opens the way for incorporating learning into the understanding of market processes. Hayek's extension of subjectivism was precisely to describe the market process as one of learning by discovery (Kirzner 1986, p. 147; cf. Kirzner 1985, p. 26).

Endogenous change in the ends-means relationship is possible with the entrepreneurial element in each individual market participant: alertness (Kirzner 1967, pp. 793 -794 and 1973, pp. 70-72).

Alertness is the propensity of knowing where to look for information (Kirzner 1973, p. 68), "the propensity ... toward fresh goals and the discovery of hitherto unknown resources" (Kirzner 1973, p. 34). A disequilibrium situation points to a situation of market ignorance. From the ignorance emerge profitable opportunities entrepreneurial alertness exploits (Kirzner 1979, p. 30). Alertness gives a more realistic image of human action and makes possible the description of the market as a unified discovery process.

"[The] 'alertness' view of the entrepreneurial role rejects the thesis that if we attribute genuine novelty to the entrepreneur, we must necessarily treat entrepreneurially generated market events as not related to earlier market events in any systematic way. The genuine novelty ... attribute[d] to the entrepreneur consists in his spontaneous *discovery* of the opportunities marked out by earlier market conditions (or by future market conditions as they would be in the absence of his own actions)" (Kirzner 1985, p. 11). "[These] entrepreneurial discoveries are the steps through which any possible tendency toward market equilibrium must proceed" (Kirzner 1985, pp. 11-12).

V. Austrians and Neoclassicals Compared

It is well known that there are two other contributors to the marginal subjective value theory: Léon Walras and William Stanley Jevons. In the modern Austrian perspective there are insights to be found in embryonic form in Menger's writings who are not absorbed in, or came to be lost form, mainstream neoclassical Walrasian and Jevonsian (Marshallian) economics (Kirzner 1989a, p. 232).

The differences refer to (1) the subject of, (2) the place of process analysis in, and (3) the epistemological character of economic theory.

A. The Equilibrium Situation or The Equilibrating Process

According to modern Austrians, the main difference between the neoclassical and Austrian market model is that in the modern Austrian market model adjustment processes and not market equilibria occupy a central position. In adjustment processes dispersed knowledge and lack of knowledge are of fundamental importance. Correct foresight, full knowledge, is not a precondition for the attainment of equilibrium but the defining characteristic of the state of equilibrium. "The statement that, if people know everything, they are in equilibrium, is true simply because that is how we define equilibrium" (Hayek 1949, p. 46).

In the modern Austrian market model, action does not primarily follow from an optimal choice in a given ends-means relation, as is mostly the case in the neoclassical market model. At the centre of the modern Austrian market model one finds the process of conceiving the ends-means relationship. The change in market model contains a change "from a 'mechanical' Robbinsian [after Lord Robbins, neoclassical] economizer to Mises's [modern Austrian] *homo agens*" (Kirzner 1973, p. 72). "[*Homo agens*] is not merely engaged in computing the patterns of means allocation that will most faithfully reflect the hierarchy of given ends [like Robbins' calculating agents]. *Homo agens* is actively seeking out the best course of action, he is venturing, innovating, exploring, searching" (Kirzner 1967, p. 792).

The discontinuity in the succession of decisions in the neoclassical market model indicates that the neoclassical maximizer does not choose at all. "[T]he replacement of one set of given ends by a second set occurs *before* (or at least *outside*) ... [neoclassical] choice itself" (Kirzner 1986, p. 142). "The very circumstance that the 'chosen' course of action is seen as already inexorably implied in the given configuration of preferences and constraints, of ends and means, makes the choice 'mechanical' or 'automatic' - and thus not a true choice at all. True choice surely requires the realistic possibility of more than one alternative" (Kirzner 1986, p. 139). Choices are not only concerned with merely selecting the highest out of an array of given and ranked alternatives, but also embrace the perception and evaluation of the alternatives identified as relevant (Kirzner 1989b, p. 18).

To discover what are the relevant means and ends must be distinguished sharply from neoclassical search theory. In neoclassical search "[t]he searcher knows what he is looking for, and he

knows where to look for it. ... [In the case of discovery, on the other hand,] the discoverer discovers something he did not know existed, or something, the ready availability of which he had not realized" (Kirzner 1989b, p. 27). Search is concerned with wiping out known ignorance. Discovery is concerned with wiping out utter ignorance: one does not know that one does not know.

The process of discovery is not completely unpredictable. For modern Austrians there is the possibility that the outcome "may emerge as a result of the alert grasping of a hitherto unnoticed opportunity." In neoclassical equilibrium theory, on the contrary, the outcome is "*either* the fully expected result[] of deliberate plans, *or* the fortuitous expression of pure luck" (Kirzner 1989b, p. ix; and p. 30).

B. *Processes: The Start or The End of The Analysis*

The neoclassical core of economic theory is the simplified static model. Processes can be studied as the outgrowth of some higher order of, mostly, technical sophistication. For modern Austrians, however, the distinction between process and situation can not be characterized as one of a choice between two, independent subject matters of economics. For modern Austrians the process elements "are central and essential for understanding markets and not merely refinements to our knowledge" (Kirzner 1989a, p. 234) or matters of embarrassment. Process, discovery, and uncertainty are essential for everyday economics. "It is not that markets work in spite of the open-ended uncertainty surrounding human action, but rather that they work *precisely because* of this quality of human action. The open-ended uncertainty of the environment itself provides the scope and possibility for an entrepreneurial process of competitive discovery" (Kirzner 1989a, p. 234).

C. *Methodology*

Subjectivism not only characterizes the substance but also the method of Austrian economics. The subjectivistic method, first explicitly written down by Mises and to a lesser extent by Hayek, is called praxeology. A name, the logic of action, introduced by Mises as characterizing the verbal axiomatic-deductive methodology of Austrian economics (Lachmann 1976, p. 56). The ideas for this method Mises found in the writings of some classical economists and older Austrians (Rothbard 1980, p. 29). It is claimed that the praxeological method was the implicit method of the economics profession till the 1950s (Hoppe 1988, p. 9 and p. 11).

Praxeology starts from the fundamental, self-evident axiom that men act by virtue of their being human. Human beings try to exchange a less for a more preferred situation. Mises, as a Kantian, describes the fundamental axiom as a priori to all experience. It is a part of "the essential and necessary character of the logical structure of the human mind" (Mises 1966, p. 34). For Murray Rothbard, as an Aristotelian, on the other hand, the fundamental axiom is "so broadly based in common human experience that once enunciated ... [it becomes] self-evident and hence do not meet the fashionable criterion of 'falsifiability'", (Rothbard 1976, p. 25). Praxeology consists in the verbal elaboration of the logical implications of the fundamental axiom of human action. There are a few subsidiary axioms. The most important of these broadly empirical axioms are, that individuals vary in tastes and abilities, that human beings regard leisure as a valuable good, and that people learn from experience. We deduce, save logical errors in the deductive process, true conclusions from a true axiom. "Our science considers only the essential. It views action... as [a] formal construction" (Mises 1976, p. 13). In this respect, praxeology models sciences like logic and geometry.

The subsidiary axiom that people learn from experience is of fundamental importance to the description of the market as a systematic sequence of economic states. Its 'broadly empirical' character is based on the general propensity of man to be alert to opportunities. "The process by which facts are hammered into human consciousness is not wholly ungoverned by the logic of human action" (Kirzner 1979, p. 30). After recognizing that people do err, we assume at least a tendency for man to notice those facts that constitute possible opportunities for gainful action. "The market process emerges as the necessary implication of the circumstances that people act, and that in their action they err,

discover their errors, and tend to revise their actions in a direction likely to be less erroneous than before" (Kirzner 1979, p. 30).

VI.*The forgotten consumer*

The consumer was central to Menger, no doubt about that (cf. Menger 1923), but the consumer is not central for modern Austrian economics. Somewhere in the traject between Menger's contribution to Austrian economics: the way in which all value in economics springs off from the final valuation of the consumer, and the modern Austrian contribution: the process through which consumer valuations are being translated in production decisions, the consumer got lost.

I think the main reason for the oblivion of the consumer is that the Austrian discovery insight is discussed by way of the methodological makeshift of an entrepreneurial producer and a non-entrepreneurial consumer (Mises 1966, p. 253; Kirzner 1973, p. 41). But when is this methodological makeshift (Mises 1966, p. 253) raised? Though alertness is in principle present in every action, in their elaborations the modern Austrians ascribe it to the producer (cf. Rothbard 1985, p. 282; Ekelund & Saurman 1988, p. xx; Pasour 1989, p. 95). Accordingly, alertness is called the entrepreneurial element. Consumers are passive, non-alert, Robbinsian maximizers. For instance, one of the functions of advertising is 'getting the Robbinsians [the potential consumers] to see the availability of ... opportunities' (Kirzner 1973, p. 148). Advertising differs from changing the consumer's taste or providing information (non-entrepreneurial knowledge) to him. Advertising (an entrepreneurial device) makes the consumer aware of available opportunities, regardless of the level of his alertness.

So we get the following paradoxical situation. For Austrian economists, classical economists were at fault because they were able to explain only the actions of the businessman. Classical economists completely neglected the rationality on the part of the consumer. It was precisely this limitation of classical economics, explaining only the actions of the businessman, that the Austrian subjective theory of value was able to overcome (Mises 1976, p. 147 and p. 175). To a certain extent, however, modern Austrian economics, just as the classical economists before them, has lost sight of the con-

sumer, too. The consumer is absent in the elucidation of the market as a dynamic process of entrepreneurial discovery.

The oblivion of the consumer in modern Austrian economics is, as we saw, fully matched by the analysis of creativity and entrepreneurship in *Centesimus Annus*. *Centesimus Annus*, too, asks for entrepreneurship of human beings in their capacity as wage-receivers, only.

Jozef Solterer, in an article from 1950 "The entrepreneur in economic theory" and a bookreview of Mises' book *Human Action* from the same year (1950b), describes economics, just like the modern Austrians, as the science of human choice and human action (Solterer 1950a, pp. 14-15). Solterer distinguishes three classes of choice. The first class is to buy or sell and is studied in the theory of pure competition. The class corresponds to what the Austrians call the act of maximizing inside a given ends-means relationship. The second class is to choose to build a structure. A structure that would not exist without the acting person. Solterer and the Austrians call the second class the entrepreneurial aspect of choice. Solterer also distinguishes a third class of choice: the task to assign the total product without remainder to the agents who helped produce it. To each of these types of choices Solterer attaches "the name of a virtuous procedure: the first, honesty [commutative justice]; the second, responsibility [social justice]; the third, fairness [distributive justice]" (Solterer 1950a, p. 19). To pursue explicitly the concept of virtuous action distinguishes Solterer's of Mises' conception of economics (Solterer 1950a, p. 15). But Solterer, too, applies the concept of entrepreneurship explicitly to the producer only and not to the consumer (Solterer 1950a, p. 19).

To sum up, Austrian economics sees man as an erring individual, who has the propensity of entrepreneurship: the propensity to notice the implications of earlier errors. With the propensity of entrepreneurship endogenous corrections of earlier errors and market processes can be described. Capitalism, seen as a dynamic process and populated with erring individuals, depends on creativity and entrepreneurship. If error correction is the essence of the market process then people are necessarily endowed with entrepreneurship. Consequently, in Austrian economics, in contrast to Scitovsky's analysis, stimulation and novelty are of the essence of the market process. But, just like *Centesimus Annus* and Solterer, the concept of entrepreneurship is worked out for the producer only.

VII. *Consumer Policy Is Detrimental to Creativity and Entrepreneurship*

How does the Austrian vision of the market process relate to consumer policy? To be more specific: What is the impact of consumer policy upon the perception by consumers and producers of the available array of opportunities? Consumer policy "may effect what it is that decision makers *discover* to be the situation in which they act" (Kirzner 1985, p. 94). It are these consequences that must be taken account of, in terms of costs, in each assessment of the likely consequences of consumer policy.

To describe the ways in which discovery problems may hamper consumer policy I use the same four headings as Kirzner (Kirzner 1985, p. 137).

A. *The Undiscovered Discovery Process*

A consumer problem does not necessarily point to the necessity of government intervention. The market is a discovery process: genuine inefficiencies can be relied upon in the future to generate market processes for their own correction. But the systematic tendency for imperfect knowledge to be spontaneously improved upon is not an instantaneous one. In Austrian economics time is not the problem but part of the solution.

What are, for instance, the market responses to the information asymmetry between producers and consumers? Of course sellers, as specialized producers, know more about their services than non-specialized buyers possibly can. Also, sellers, by knowing more about the quality of their service than consumers, are able to manipulate consumers. This led George Akerlof to his prediction that in equilibrium on the market for used cars, only 'lemons' will be offered for sale (Akerlof 1970, p. 490). The government's answer to the problem of how to protect the public health or safety is often in the form of occupational licence or governmental organizations of certification.

But there are also many free market responses to the alleged market failures: producer supplied guarantees, private information services, producer provided quality screening services, and all forms of non-governmental organization of certification. Besides, there are many information surrogates that keep consumers adequately informed: repeatedly purchasing certain services, drawing on the experience of friends, relatives, and neighbors, or inferences drawn from the length of life of firms offering services. To conclude: "if consumers are able to check the veracity of suppliers *in any manner*, laissez-faire market equilibrium can support [contrary to Akerlof's assertion] high quality" (Young 1987, p. 18). Besides, consumers who prefer lower-priced, lower-quality service will be worse off with licensing, because such suppliers will not be permitted to practice and in this way the poor subsidize the lower information search costs of the rich (Young 1987, p. 21).

In this respect one must notice that even in a nontransparent market as the drugs market there arise institutions which lower the transaction costs of both producer and consumer. A drugs supplier faces high selling costs. It is not easy for him to make selling efforts; there is certainly no room for direct advertising. And, if caught, he runs into high costs in terms of imprisonment and income forgone. For the consumer, too, there are high buying costs. He faces high search costs, high costs in the form of uncertainty over the quality of the goods, and in cases of fraud, there is no law to protect him.

In this disequilibrium situation coordination between buyers and sellers, and transaction volume is low. One can expect that some entrepreneurial people try to make some profit as middleman in creating an information market. "We need not," as Kirzner says, too, "wait for evidence on the way information comes to spread through a society. We can, instead, employ our logic of choice to identify, within disequilibrium markets, the opportunities for gain that disequilibrium conditions themselves create. Postulating a tendency for such opportunities to be discovered and exploited, we can then explain the way such gradual discovery of opportunities in turn gradually alters the pattern of opportunities presented in the market as the process unfolds" (Kirzner 1979, p. 33). We can be sure of that element in human decision making which Kirzner calls the entrepreneurial propensity in human action: alertness. Alertness is "the propensity ... toward fresh goals and the discovery of hitherto unknown resources" (Kirzner 1979, p. 34).

As Harald Kunz demonstrates the middlemen tries to reduce the high costs for both producer and consumer. He offers information the consumer of drugs needs, and the drugs supplier likes to be spread. For the producer, the middleman separates the market of drugs supply from the market of drugs selling. For a fee, he creates an information market which lowers the selling costs of the supplier. Because he is no drugs supplier, the middleman himself does not face high imprisonment costs. At the same time, he lowers the search costs for the consumer. Both supplier and consumer value the middleman, as he reduces the transaction costs for both of them (Kunz 1985, pp. 93-103).

The self interest of all parties concerned ensures that such a market can exist. The middleman will not share his information about where to buy drugs with too many people. Otherwise the drugs supplier can be sold out as a buyer arrives. The information will be exclusive. If the middleman wants to stay in the market he must be reliable not only in his information on where to buy but also on product quality. The more reliable the middlemen is, the more he can charge his customers. The other way around, the supplier has to be truthful about quantity and quality of his drugs to his middleman, otherwise he will loose business. Better quality commands a higher price for the supplier and a higher fee for the middleman. The result will be that (1) the market will be more coordinated and the transaction volume will be higher then otherwise would be the case;(2) an experience good becomes more or less a search good; and(3) quality does not deteriorate; there is even a stimulus to increase quality.

Clarence Ayres in a book review of Mises' *Epistemological Problems in Economics* opposed Mises' condemnation of the mixed economy. Ayres denied the "automaticity" of the self-regulating purely capitalistic economy (Ayres 1961, p. 200; cp. Solterer 1950b, p. 128). As the drugs example showed, by spelling out more clearly the concept of human choice, as the modern Austrians do, part of Ayres critique can be met. "To commence an analysis of choice *after* a particular ends-means framework has been declared known and relevant, is [indeed] to deal with choice in a manner that renders it completely mechanical. The *creativity* of choice, the element that makes action human, has been left out" (Kirzner 1979, p. 148). The market process, however, depends on creativity, entrepreneurship, and the discovery of hitherto unknown ends and means. An activity that lies between pure luck and rational calculation.

B.*The Unsimulated Discovery Process*

How do government officials know what prices to set or qualities to require? In the absence of the pure profit incentive, market opportunities which present themselves in the form of potential profit opportunities are not likely to be discovered by the regulators. "It is doubtful in the extreme if ideals such as benevolence or patriotism can be relied upon, in general, to enable a potential discoverer to identify his own personal interest with that of the discovery of an opportunity for a reallocation of resources desirable for society" (Kirzner 1985, p. 33). The discovery process of the market cannot be simulated by regulatory activity.

Because in consumption the consumer always captures the profit himself, at first sight it looks as if the consumer's alertness is stimulated irrespective of the market form. The relevant information will always be of benefit to the potential discoverer. In a regulated market, however, things are a bit more complicated.

Regulators and consumers in a regulated economy focus on the efficiency of the given and known household production process for which traditional incentives, e.g., lowering the search costs are of help. Consumers in a non-regulated economy, however, are next to the efficiency of the transformation process alert to the discovery of genuine errors: to expect the unexpected. Government regulation of producer decisions, however, takes possible surprises out of the open-ended surroundings of the consumer. Consequently, it is to be expected that a consumer in a regulated market (government takes care of me) is less alert to new ends and new means than the consumer in an unregulated market. Profit inspired diversity in consumer goods and services stimulates the consumer. The consumer's alertness is switched on by the fact that there may be something lurking around the corner. Something he is hopeful or something he is fearful of.

C.*The Stifled Discovery Process*

Government regulation, e.g., price and quality restraints, tends to bar entry by potential new competitors. A price restraint does not merely block the upper reaches of a given supply curve but also may inhibit the discovery of as yet unsuspected sources of supply. Next to the discoordination generated by imposed prices in markets for existing goods there is the effect that such ceilings may inhibit the discovery of as yet wholly unknown new products (Kirzner 1985, p. 143). To stick to the example of the drugs market. Think of such 'undiscovered' uses of marijuana as paper, fuel, building materials, clothing, animal food, and a protein source for humans.

At this point one must remember that competition is a two-sided process taking place between producers and consumers and within each group. The likelihood that regulation may discourage, hamper, and even completely stifle the discovery process of the unregulated market counts for producers as well as for consumers.

The Austrian methodological makeshift of a Misesian entrepreneurial producer and a Robbinsian non-entrepreneurial consumer, used for the elucidation of the market process, is at this point of no help and leads to wrong policy conclusions. If the methodological makeshift is not removed then the Austrians do not have valid arguments against those forms of consumer policy which try to increase the market transparency of the consumer. For then there are no valid arguments against passing on to the consumer comparable and relevant product characteristics for the existing supply of products. When the methodological makeshift is not removed, it is possible from an Austrian perspective to make a plea for quality certification as a form of collective (public) good (Hayek 1982, III, p. 44). It is also possible to defend the subsidization by the government of comparative testing by consumer organizations (Kaufmann 1985, p. 24).

From the Austrian vision, however, on the functioning of the market in general, these policies can only be rejected. The question is, what are the relevant product characteristics, and how are these characteristics changed over time (cf. Rothbard 1970, pp. 43-47; O'Driscoll & Rizzo 1985, p. 105 and p. 236)? The consumer, too, discovers new unexpected ends (new forms of utility) to old and new means. It is not always the case that the role of the producer "consists in relieving the consumer of the necessity to be his own entrepreneur" (Kirzner 1973, p. 136). The situation can also be the other way

around. The producer hires a trendwatcher. Someone who looks out for what a trendy consumer discovers.

D.*The Wholly Superfluous Discovery Process*

Measures taken by government officials to protect the consumers are likely to open up new avenues for entrepreneurial gain: they introduce a different disequilibrium situation. This new disequilibrium situation will generate its own discovery process with its own wholly unexpected and even undesired final outcomes, e.g. enterprising bribery and corruption of the regulators.

To sum up, I presented a less obvious drawback of policies to protect the consumer. The Austrian understanding of the market economy provides a novel angle for a critique of the regulated consumer. Regulatory restrictions interfere with the spontaneous discovery process that the unregulated market tends to generate. In order to give a full appreciation of the market as a competitive-entrepreneurial discovery process it was necessary to emphasize the entrepreneurial role of the consumer.

For modern Austrians consumer policy stifles the profit or utility incentive that converts a socially desirable opportunity (an opportunity that transcends an existing framework of perceived opportunities) into a personally gainful one. These 'conversions' are the steps of the discovery process through which any possible tendency toward market equilibrium must proceed. So, we end up with about the opposite of what consumer policy intends. Is not the ultimate aim of consumer policy to better the possibilities to satisfy needs by means of consumption? To assess the results of consumer policy as a social policy it is necessary to look at the entrepreneurial behavior of the consumer and the producer.

VIII.*Conclusion*

What picture does the capitalistic market economy give us if we extend some of the "new things" pointed at in *Centesimus Annus* from the producer to the consumer? What does creativity and entrepreneurship entail for the consumer in a capitalistic market economy?

For Scitovsky not only economic analysis but the capitalistic market economy, too, has no room for entrepreneurship, for the yearning for novelty by the consumer. Economic analysis is based on a psychological model of man which emphasizes arousal reduction in cases of deprivation. Arousal stimulation in cases of lack of novelty is forgotten. The capitalistic mass market is detrimental to novelty, it leads to homogenized and standardized products. Only the rich can buy variety. Consumer policy, framed within a given ends-means relationship, is of no

help either. It tries to realize the conditions of the neoclassical market model and only looks for error correction inside a given and known ends-means relationship.

Austrian economics extends the concept of error and error correction. Error is no longer confined to maximizing decisions inside a given ends-means relationship, but is extended to the creative, entrepreneurial process of conceiving the ends-means relationship. In that way, it makes room for creativity and entrepreneurship.

Consequently, what *Centesimus Annus* asks of the modern market economy, and Scitovsky could not find in it, is spelled out in modern Austrian economics. It is the entrepreneurial element in human decision making. Error correction is the result, not only, of new information purposefully searched for, or, just the opposite, sheer luck but can also be the result of alertness: creativity and entrepreneurship. The capitalistic market process depends on, is nothing but, entrepreneurship. For Austrians neoclassical inspired consumer policy is detrimental to the entrepreneurship of the consumer.

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*.Assistant Professor, Department of Economics, Faculty of Law, Leiden Univesity, P.O. Box 9521, 2300 RA Leiden, The Netherlands.