

**Man of Action: A Review of Entrepreneurship in Murray N. Rothbard**

by *Fernando A. Monteiro C. D'Andrea*<sup>1</sup>

*The market is no respecter of past laurels, however large.*

(Rothbard, 2004, p. 516)

*No economic theory worth its salt can be worthwhile if it omits the role of the entrepreneur in an uncertain world.* (Rothbard, 1991, p. 56)

**Abstract**

Rothbard said that no economic theory is to be taken seriously if it omits the entrepreneur. In his writings, therefore, the entrepreneur is omnipresent. However, and partly because of this, his contributions on the topic have not been concentrated in one single piece. This work aims to resolve that problem. Using Rothbard's originals to trace a comprehensive idea of his 'Man of Action', the capitalist-entrepreneur in the causal-realist tradition of the Austrian School. For Rothbard, the entrepreneur is the actor that judges in the present about the future and directs production processes by holding, controlling and allocating productive resources in search for profit. To provide a comprehensive view of the Rothbardian approach, I show how it influenced causal-realist authors, how it differs from other approaches, and defend that his strand is the one in line with the praxeological teachings. I also show that his developments lay the ground for current and future developments in the theory of entrepreneurship based upon the causal-realist tradition.

**Keywords:** Rothbard, entrepreneurship, causal realist tradition, Kirzner, uncertainty

**JEL codes:**

---

<sup>1</sup> I am grateful for the comments and suggestions made in earlier versions of this manuscript by Dr. Joseph Salerno, Dr. Peter Klein, Dr. Per Bylund, Dr. Patrick Newman and Dr. Matthew McCaffrey. All remaining errors are my own.

## Introduction

Rothbard's contributions are very influential in the causal-realist literature on entrepreneurship. The ideas presented by Salerno (2008) and McCaffrey (2015, 2018) take Rothbard's developments and clarifications as building blocks, but his relevance becomes even more preeminent in the movements towards the unification of the theory of the firm and the theory of the entrepreneur that have recently emerged in the mainstream literature on entrepreneurship (P. L. Bylund, 2016; N. J. Foss & Klein, 2012, 2017). Because of this influence, the modern literature on entrepreneurship (Alvarez, Audretsch, & Link, 2016; Townsend, Hunt, McMullen, & Sarasvathy, 2018 to name a few) would benefit from a better understanding of the theoretical clarifications made by Rothbard along the years.

The entrepreneur is ever present in Rothbard's theorizing (see for example, 1991, p. 56; 1994, p. 559, 2011, p. 174), but few of those writings are exclusively dedicated to the topic (exceptions include Rothbard, 1974, 1985, and 2004, Chapter 8 that come closest to a standalone treatment) - later on in this piece I will articulate on the possible reasons for this unusual fact. Rothbard was one of the great economists of the 20<sup>th</sup> century (Salerno, 2002, 2004). But, at least partially due to the aforementioned lack of an standalone treatment, Rothbard's contributions to entrepreneurship theory remain to be properly exposed and analyzed. By providing this exposition, I will provide a summary that will expose Rothbard's insights on the entrepreneur and his relevance to the market process. The absence of a summary of his thoughts suggests a significant gap in the literature, as the views of a major theorist/contributor to the theoretical body of economics on entrepreneurship remains dispersed and mostly unknown.

The paper fills the gap by synthetizing the ideas and outlining the would-be Rothbardian theory of entrepreneurship and its nuances. To accomplish this task, I performed a comprehensive search for his scholarly writings on entrepreneurship and identified major themes that provide structure and facilitate understanding. My research includes his comments on the Austrian School (Rothbard, 1989, 2011), commentaries on other approaches, reviews of books, collections and papers (Rothbard, 1974, 1985, 1987, 1994, 1997)<sup>2</sup>, and a few contributions of other authors that provide support, and

---

<sup>2</sup> The 1985 comment was republished in a 1997 collection of Rothbard's works with a different title, but with no other changes to the original text. The 1997 version was cited by Salerno (2008).

explicit the dimensions of the Rothbardian contributions (Gordon, 2019; Salerno, 2004, 2008). I thereby position Rothbard in the entrepreneurship discussion as a developer of the causal-realist ideas. Rothbard defines the entrepreneur as the actor that shapes production (1985, p. 282) conceiving “the entrepreneurial function [...] as presupposing the ownership of property, specifically capital” distinguishing the Austrian theory of production (Salerno, 2008, p. 188). The objective is, consequently, to present Rothbard’s theory of entrepreneurship and provide evidence that this is the best theoretical support for the modern developments in entrepreneurship

In addition to outlining Rothbard’s entrepreneurship theory, the review provides a stepping stone for future research to, for example: a) clarify the differences between the market entrepreneur and actors that work outside of the market realm; b) properly insert stockowners in the theoretical discussion; c) facilitate the discussion on the cluster of entrepreneurial error that FMD1 occurs in the boom phase of the business cycle; and d) further understand some of the underpins of the theory of the entrepreneurial firm.

The paper goes as follows: I first deal with the Rothbardian entrepreneur and his role in the economy, I also deal with the Evenly Rotating Economy – ERE, that makes the analysis possible. I then talk about profits, losses, costs and interest. Later I discuss the controversies and how Rothbard saw others’, especially Kirzner’s and Schumpeter’s, ideas as well as the importance that he putted on a sound theoretical approach. I proceed to outline the Rothbardian theory of entrepreneurship as it would have been had he chosen to present one, and suggest reasons for the absence of that standalone treatise among his works. Conclusions and comments about the relevance of the Rothbardian take for the development of the current entrepreneurship literature, suggestions for developments, and comments about the present of the causal-realist approach to entrepreneurship follow.

## **1. The entrepreneur and the market**

Rothbard (2004, p. 64-65) draws from Mises (1998) and defines entrepreneurship as the “process of forecasting the future conditions that will occur during the course of his action”. However, human action deals with complex factors and because of that, it is not possible to use objective methods to reach the “best” decision

about which action to take. Every actor must predict what is going to happen in the time between the action and the outcome of the same action, this is the “act of entrepreneurship” (Rothbard, 2004, p. 64). Rothbard, however, goes beyond Mises and defines entrepreneurship in a much specific sense as “production for the market” (2004, p. 158).

Success or failure of the entrepreneurial action can only be evaluated *ex post*, they are, in this sense, time dependent. Successful entrepreneurs are usually correct in their predictions about the future and invest accordingly; the ones that fail, contrarily, err in their future predictions and consequent investments decisions (Rothbard, 2004, p. 64-65, 2011, p. 173).

Rothbard stresses that a narrower definition of entrepreneurship is necessary for economic analysis. This narrower definition is capable of pinpoint entrepreneurship in its most important case: “the driving force in shaping the actual structure and patterns of production in the market economy, are the capitalist-entrepreneurs, the ones who commit and risk their capital in deciding when, what, and how much to produce” (Rothbard, 1985, p. 282)<sup>3</sup>. By using this definition (2004, p. 509-555) Rothbard clarifies two points: 1. that all production processes must be guided by the entrepreneur and 2. that the capitalist-entrepreneur is the most important kind of entrepreneur (2004, p. 509).

Rothbard adopts the term “capitalist-entrepreneur”<sup>4</sup> to define the economic actor that organizes and directs production processes aimed at fulfilling what the individual foresees as future market demands (Salerno, 2008, p. 204). Rothbard uses the term

---

<sup>3</sup> Rothbard also agrees with Mises that all human action have entrepreneurial aspects, but that this definition is not good since it is not specific enough to allow for a theoretical treatment. In that sense, one who buys for consumption *is* exercising entrepreneurship, but this entrepreneurial action implies in foreseeing only her own wants in the future, while buying for production implies in something much harder: predicting *other's*, the consumer's, valuations in the future.

<sup>4</sup> Coined by Böhm-Bawerk (1890, p. 14), the original English translation was “capitalist-undertaker”.

“capitalist-entrepreneur” to assure the real-world connection and avoid the possible confusion that may emerge due to the theoretical separation that exists between the economic functions of the ‘capitalist’ and the ‘entrepreneur’.

In addition to positioning the entrepreneur as the center of the production processes (Salerno, 2004, p. xxvii), Rothbard offers other characteristics that define the entrepreneur, in what follows those characteristics are outlined and discussed.

### **1.1 Characteristics of the Rothbardian Entrepreneur**

The capitalist-entrepreneur is the only agent capable of incurring losses - “negative incomes in production” -, while all other agents, because they do not face uncertainty on the market process, cannot (Rothbard, 2004, p. 604)<sup>5</sup>. This is the most fundamental point that differentiates the capitalist-entrepreneur from all other market actors. The purpose of entrepreneurship is to make profits (Rothbard, 1988, p. 10).

He complements saying that entrepreneurship is “production for the market” (2004, p. 158). To produce to the market, the entrepreneur has to estimate, to the best of his knowledge and using his best means, the demand and the future prices of the products/services that she aims at providing. She needs to estimate with some precision what other agents will be willing to pay for and at what level, in essence, the entrepreneur needs to try to foresee what will be other actors, other entrepreneurs, but mainly the consumers’ subjective valuations in the future<sup>6</sup> (Rothbard, 1988). The entrepreneur must invest in capital (land and/or capital goods) that will be used in the production process; she will need to buy the capital goods or their services in the

---

<sup>5</sup> As will be seen in the discussion about the ERE, profits and losses are exclusive of the capitalist-entrepreneur, while other economic agents get salaries (employees) and rents (capital owners).

<sup>6</sup> Modernly, disciplines that deal with markets in general (business administration, marketing, strategy, innovation and entrepreneurship, to name the most recognizable), this skill is called ‘entrepreneurial empathy’, it leads the entrepreneur to perform an empathic diagnosis of her own potential market, its possible consumers (Hastings, 2019, McMullen, 2015).

present and sell the result of the production process, the final good or service, in the future. This chain of events, that happens as time passes, demands that the entrepreneur is constantly paying attention to the dynamism of the market. To do it successfully and collect profits, the quality of the entrepreneurial judgment and the precision of her predictions is very relevant (2004, p. 509). That capital allocation function in the economy is exclusive of the entrepreneur (Rothbard 1991, p. 58).

In addition, all actors that invest resources in a productive endeavor (that leads the product to somewhere closer to consumption) are putting money today and anticipating / speculating on a future sale, this action makes all of them entrepreneurs as well (Rothbard, 2004, p. 211 & p. 509). Therefore, the distinction between the entrepreneur and the capitalist (the one advancing the money, the investor) is, consequently, only possible in theory with no practical effect and no real-world existence whatsoever. In the economy of the real-world the economic functions of those two abstract entities are integrated in the same concrete actor, the capitalist-entrepreneur (Salerno, 2004, p. xxxvi).

Creating or finding an investment that is believed to be profitable is another of the entrepreneurial functions, possibly the definitional one (Rothbard, 1988). This can be done by opening one's own business, or – and probably much more easily - by investing in pre-established organizations through the stock market or via any other available option. In the latter case, the agent enters a pre-established business, she can look for and choose from different investing channels, she can also rely on specialized institutions to provide her with information on the possible investments (Rothbard, 2004, p. 440). Based on the information, the decision of whether, where, when, how and how much to invest remains in her hands, in the hands of the entrepreneur that will need

to estimate future gains and decide if the inherent market uncertainty is worth the allocation of capital in the present (Rothbard, 2004, p. 509).

In that sense, corporate capitalists (stockholders of *all* sizes) assume the entrepreneurial function and become directly responsible for guiding the production processes in the companies in which they own shares. The managers in those organizations only exercise power until the entrepreneur(s) allows them to, entrepreneurs maintain the decision power over the resources and can fire the manager at any time. In addition, even in the cases in which the capitalist-entrepreneur is minority and has no power to change the management, if she is not satisfied with the way the management team is directing the organization, she is free to release herself from the ownership rights by selling her stocks on the market, essentially ‘firing’ the manager. In both cases, if the company is directly managed by the entrepreneur or when the entrepreneur passes his decision making power to a third party, a manager, the entrepreneurial judgment must be continuously exercised to try to foresee the future market looking for gains based on the present investment (Rothbard, 2004 p. 434-435).

Still on the stock market, the actor can observe a company which the stocks she believes to be currently undervalued; by buying this stock, she becomes an entrepreneur. In case the stock price rises, the company proves to be more valuable than what was previously thought<sup>7</sup>, the entrepreneur would have demonstrated her entrepreneurial wisdom in directing capital (Rothbard, 2004, p. 1175).

---

<sup>7</sup> It is important to notice that Rothbard here was not talking about the so-called speculative activities that occur in the stock market, but about the activity of the entrepreneur that judges the value of a company by its capacity of satisfying consumer wants in exchange for a monetary value. The Rothbardian idea can be exemplified in the active investment and value investing strategies that looks for companies that constantly deliver value to consumers and that are expected to continue doing that in the foreseeable future in which the investor/entrepreneur aims at making a profit. (I thank Dr. Per Bylund for that insight).

Another distinguishing element of entrepreneurs is that, by deciding on how to use their capital, entrepreneurs become the economic actors that face uncertainty (Rothbard, 2004, p. 434, 2011, p. 173). Rothbard (2011, p. 173-4) says that this individual “faces the world emphatically knowing some things about his world and not knowing others”. Entrepreneurs, for example, probably know that if the quantity of money increases and the amount of goods stays the same, nominal prices will rise, at the same time they do not know exactly what is going to be the future demand of any of the commodities that they are to produce or who will be the future competitors or how much people will (if ever) be willing to pay for their products. This means that entrepreneurs are capable of foreseeing certain characteristics of the future markets and have very little possibility of predicting others. Contra Lachmann, therefore, Rothbard did not think the future was kaleidoscopic (Lachmann, 1976).

At the same time, the capitalist-entrepreneur, while facing uncertainty, also carries the risk of the endeavor and saves his wage-based workers of that burden. By hiring workers, the entrepreneur is effectively buying their risk (this specific action works much like an insurance), the workers can then enjoy the payment in the present instead of having to wait for the product that they contribute to produce to be sold to have access to the money, as the entrepreneur needs to do (Rothbard, 2004, p. 1314)<sup>8</sup>.

Still in their relationship with their workers, the entrepreneurs improve the productivity of the employees by financing and providing the contracted individuals with tools that improve the wage-earner’s productivity. By doing so, the entrepreneurs augment the workers’ scarcity when compared to other productive factors which leads to an increase in the price of the work itself, the real salaries (Rothbard, 2004, p. 578).

---

<sup>8</sup> A similar reasoning could be used to classify the owners of fixed capital that rent their productive resources to an entrepreneur for a fixed amount.

To face uncertainty, the entrepreneur knows a great deal about the part of the market in which she is interested (Rothbard, 1988, 2011, p. 177). She knows (or, at least, believes she does) not only about the prices in that market, but she has lots of other qualitative knowledge that are needed in the production process, among others, she knows: what kind of consumer will be served, what products will be most probably demanded, where to find the raw materials and how to transform them. The knowledge that comes from the price system is necessary, but not sufficient, not it is the unique source of knowledge that the entrepreneur has access to (Rothbard, 2011, p. 179)<sup>9</sup>. Qualitative knowledge makes economic calculation of costs and prices, and by consequence, entrepreneurial action per se, possible (Rothbard, 2011. P. 188), in the absence of that kind of knowledge, entrepreneurship itself is not possible.

The entrepreneur relies on the market to calculate, it is in the market interactions that she finds salaries, rents and interests as well as the other qualitative information needed in the decision-making process. Without prices, rational calculation becomes impossible, thus the allocation of productive resources to their most valuable uses and in accordance to what the entrepreneur believes the consumers will mostly value in the future also becomes impossible. Economic calculation is only possible because a genuine price system, based on the possibility of exchange of resources among private agents, is in place in the means of production (land and capital) (Rothbard, 2011, p. 188), however, the existence of this system of prices is not sufficient to the existence of the entrepreneur, knowledge about the prices is not sufficient for entrepreneurial action..

Lastly, entrepreneurship is about adjusting to the inherent uncertainty of the future market conditions (Rothbard, 2004. P. 858). The entrepreneur possesses

---

<sup>9</sup> As will be seen shortly, the kind of knowledge needed to the Mises-Rothbard entrepreneur is very different of the knowledge necessary to the Hayek-Kirzner's entrepreneur, on that difference see also Salerno (1993).

quantitative, in the form of prices, and qualitative knowledge about the market, she is active, she takes risks, she faces uncertainty and tries to predict the future; she uses the price system as an indispensable guide that allows for economic calculation of costs and estimations regarding revenues and profits and uses price and non-price knowledge to support her decisions in the present. Capitalist-entrepreneurs are “the driving force of the economy [...] those who own or partially own capital resources and risk them in projects hoping for future returns” (Rothbard, 2011, p. 179).

### **1.2 Booms and entrepreneurs that err in groups**

In “America’s Great Depression” Rothbard (2000), tries to explain how is it possible that so many entrepreneurs commit the same kind of mistake at the same time, and, because of that, end up suffering losses in the most different sectors in the economy in the event of a burst. Since entrepreneurs are the ones that carry uncertainty and who specialize in predicting market’s future outcomes, this kind of phenomena would seem to be all but natural and would be one of the major weaknesses of the Austrian Business Cycle Theory (ABCT).

Rothbard (2000, p. 9-14) uses the ABCT to explain why this unusual set of entrepreneurial errors comes to be. He shows that the credit expansion coming from banks reduces the interest rate for loans. The reduced interest rate ends up fooling the agents into thinking that there is more savings ready to be invested, actors are misled into thinking that savings actually exist and take them as loans applying those new ‘loanable funds’ to production processes that are further away from consumption. This means that some actors that otherwise would not have the chance or the willingness to access loanable funds, because of the artificially low interest rates, will be able to become entrepreneurs. In other words, artificially low interest rates, incentivize individuals that would not otherwise take entrepreneurial action to do so. The average

skill of the entrepreneur decreases as becomes clear when some of those investments are, later in the bust phases of the cycle, discovered to be incapable of generating profit.

The expansionist phase, when those agents that would not be entrepreneurs otherwise enter the 'market' for entrepreneurs, is characterized by an increase in the bank credit that reduces interest and fools individuals, many of which end up assuming the entrepreneurial function. The entrepreneurs, not only the new enters, but the ones that exercise this economic function in general, even before the expansion of credit, respond by misinvesting (malinvesting in Mises' jargon).

Without an actual change in the time preference of the consumers - that would lead to an increase in savings and their corollary, loanable funds -, as time passes, the market agents begin to realize their mistakes in expanding the production structure. Crises sets in when consumers reestablish their time preferences or when the credit expansion is no longer capable of sustaining the boom. When this movement becomes clearer, entrepreneurs start trying to save whatever is possible by liquidating (or even completely abandoning the capital), the widespread reproduction of this liquidation of assets is what triggers the burst phase of the cycle. The accompanying economic depression is a mechanism by which the market tries to adjust the errors made in the expansionist phase and tries to reestablish the most efficient way of allocating capital given the average time preference and the real stock of loanable funds that reflects the consumers' real value scales. This is when the weakest entrepreneurs are expunged from the market and rejoin the labor-force as wage-earners again.

In sum, Rothbard (2009) explains that entrepreneurs err in groups because they are misinformed about the time preference reflected in the manipulated interest rate.

### **1.3 Entrepreneurs in the Evenly Rotating Economy (ERE)**

The ERE is one of the most used theoretical apparatus in “Man, Economy and State” (MES) (see Rothbard, 2004, Cap. 5 Part 2 for a detailed explanation). It can be summarized as a theoretical abstraction used to comprehend what would occur if the value scales, technologies and original resources in general remained unchanged. In such a situation, since no actor would have any reason to change their previous decisions, people would still act, but they would do exactly the same as they did before. In this theoretical construct action persists, but the economy only ‘circulates’ and the dynamism that modifies the market process becomes absent. The ERE is a tendency towards which all markets point to, however, it is also impossible to achieve because of the dynamism of the real world (Rothbard, 2004, p. 356, p. 510). Most important to Rothbard is that in the ERE all uncertainty, and especially important to our discussion, the entrepreneurial uncertainty, ceases to exist.

This non-dynamic state of the ERE and the consequent disappearance of the entrepreneurial uncertainty leads to the inexistence of the capitalist-entrepreneur as conceived in the real economy (Rothbard, 2004, p. 349). However, the theoretical role of the capitalist – the one who saves money and hires services and means of production - remains present (Rothbard, 2004, p. 332-333; p. 349).

Rothbard (2004, p. 356) states that only by using the ERE it would be possible to really analyze and understand the (pure) entrepreneurial profit and some other economic-related issues such as the structure of production, the interest rates, and the pricing of productive factors.

In the ERE, the rate of return is the pure ratio of exchange between present and future goods, since there is no uncertainty, there would be no premium for uncertainty bearing neither. The aforementioned rate of return is the pure interest rate and would be uniform and constant throughout the lines of production in all periods (Rothbard, 2004,

p. 351). This conclusion is, using the economics of the real world, impossible to achieve, since that it is not possible to directly observe (or calculate) the pure rate of interest; in real life situations it is impossible to detach the pure rate of interest from the other parts that form the returns that the entrepreneur will have right to (Rothbard 2004, p. 415).

It is only by using the ERE that the different economic functions exercised by the entrepreneur can be separated. This separation is done by asking: which of the theoretically possible entrepreneurial functions would persist in the ERE? To answer to this question, Rothbard (2004, p. 602) identifies four sources of return to the entrepreneur: managerial payment, return on capital, entrepreneurial rent and pure profit. He further states that the first two, derived from the managerial work and the capital investment, remain present in the ERE, and that the “decision making” or “ownership” function related to the ultimate responsibility over the production process and the property of the goods that are produced by the firm to be sold in the market (Salerno, 2008, p. 204) that generates the entrepreneurial rents, also remains. The decision-making function cannot be transferred to hired personnel and encompasses the ultimate decisions about how property will be used and who is going to manage those properties, this function does *not* disappear in the ERE.

As pure profit is the counterpart to returns higher than the interest rate, and there is no return higher than the interest rate in the ERE, it is impossible to have entrepreneurial profit in the ERE. The pure profit is, consequently, the part of the return to the entrepreneur that disappears in the ERE and is, by consequence, what theoretically defines the real-world entrepreneur.

In the ERE, the entrepreneur keeps on exercising three of the four economic functions that she does in the real economy, the ones that are impossible to transfer or

delegate. It is important to remember that in that theoretical setting, people would still be different and would possess different decision-making skills which would lead to differences in efficiency among firms. Rothbard shows that decision making rents persist in the ERE and even the firms with smaller returns would maintain those rents for the entrepreneur, in case they do not, the entrepreneur would leave (Salerno, 2008, p. 205). It is only by using the ERE that the four sources of income available to the entrepreneur in the real world can be identified: managerial payment, return on capital, entrepreneurial rent and pure profit.

## **2. Profit, Loss, Rents, Interest and Costs**

The purpose of entrepreneurship is to make profit (Rothbard, 1988). To try to do so, the capitalist-entrepreneur provides speculative resources to factors of production believing that she will recover those resources not only adjusted by the interest rates related to the time preference, but also added to the entrepreneurial profit to be calculated after the transactions (Rothbard, 2004, p. 355).

The entrepreneurial rents, derived from property and decision-making, and the pure profit (Salerno, 2004, p; xlv; Rothbard, 2004, p. 604) are the rents that producers want to obtain in their productive processes (Rothbard, 2004, p. 298). As Rothbard explains using the ERE, those two are different and complementary to the salary of the manager and to the return over the invested capital.

In some cases, the four different sources of revenue can be directed to the same actor, the entrepreneur, that occupies all those theoretical positions within the same firm at the same time (Salerno, 2008, p. 204). This usually happens to entrepreneurs that work at their own company, their personal revenues are a mix of the four different

factors that are very hard, if not impossible, to separate outside of the ERE in the real world.

Moreover, profits only exist economically whenever the return is higher than the pure interest rate. In cases in which this is not the fact, in spite of the positive return when compared to the initial investment, the entrepreneur incurred in an economic loss (Rothbard, 2004, p. 354 & 513)<sup>10</sup>.

Profit occurs when the production factors that the entrepreneur chooses to her productive endeavor were underpriced (in case the unit services were bought) or undercapitalized (when the factors themselves were bought) when they entered the entrepreneurial activity (Rothbard, 2004, p. 510). In those cases, the market expectations for that specific economic good were underestimated about their capacity of generating future rents, and the actions of the entrepreneur were capable of better observing that misallocation and exploring it, relocating the non-specific productive resources from other production chains to a position in which they were better capable of generating revenues. In that view, profits are the prize the entrepreneur gets for her capacity to foresee future demand better than the other market actors (Rothbard, 2004, p. 510).

Profit generation is a self-regulating process, when an entrepreneur bids for the means of production looking for possibly profitable ways of rearranging resources, she automatically augments the demand for those same means of production and starts the process of reducing her own profits by doing so. This process is potentialized when other entrepreneurs start to compete for the same factors of production in the same or in different markets.

---

<sup>10</sup> For example, with a pure interest rate of X% year-over-year any venture that pays less than those X% has incurred in economic loss. Its return was smaller than it could have been, the entrepreneur has lost at least the difference between his return and the X% that he could have gotten elsewhere by lending the money.

If, on the other hand, the entrepreneur overprecified or overcapitalized her acquired assets, she will incur in losses (Rothbard, 2004, p. 513). In the ERE, since all future values are known, it is not possible to have over or undercapitalization or pricing, which, again, proves that entrepreneurial profit and loss cannot exist in that theoretical arrangement (Rothbard, 2004, p. 513).

Again, the entrepreneur faces uncertainty and transforms the risk in a cost of operating the business (Rothbard, 2004, p. 555). This happens because the entrepreneur relocates the means of production to supply demands that she believes will be more highly positioned in consumers' value scales, and by which those same consumers will be willing to pay more than the cost of production. Rothbard (2004, p. 511) informs that the entrepreneur "detected that the factors' prices did not adequately reflect their potential Discounted Marginal Value Products (DMVP); by bidding for, and hiring, these factors, he was able to allocate them from production of lower DMVP to production of higher DMVP". In a simpler statement, profits are the other side of the coin to the increase in the entrepreneurial capital, losses reflect a reduction in that same capital (Rothbard, 1985, p. 282).

Concurrently, it is a grave mistake to consider only the possibility of profits, losses are fundamental as well and the economy must be characterized as one of entrepreneurial *profit and loss* (Rothbard, 2004, p. 513). Profits indicate that misallocations in the market process are being met by the entrepreneurs; losses indicate the opposite, that those misallocations are increasing due to the entrepreneurial action<sup>11</sup>. The greater the profit, the greater the adjustment promoted in the structure of production by that particular entrepreneur; the greater her loss, the most she is disorganizing the structure of production (Rothbard, 2004, p. 514-5). Entrepreneurs that constantly face

---

<sup>11</sup> As will be seen later, this discussion about profit and loss is one of the most controversial points in the Kirznerian approach, and one that ignites Rothbard's debate.

losses will be expelled from the entrepreneurial market and will be back to be wage earners (Rothbard, 2004, p. 515).

Other things equal, the quantity of entrepreneurial profit measured in money will prevail in a decision-making process. However, Rothbard is vehement in remembering that the financial profit is only a part of the total entrepreneurial profit, and that the psychic / subjective part should not be ignored (Rothbard, 2004, p. 509).

The way in which every entrepreneur deals with her own profit is subjective and dependent upon the individual's value scale. Rothbard explicitly recognizes that the *homo economicus* idea, the individual exclusively interested in money returns that he will be able to acquire from a given venture, is a myth (Rothbard, 2004, p. 212).

In addition, the entrepreneur can and should be rewarded with financial profit. If she chooses to abstain from part of that profit to look for non-monetary profit (say, to have more leisure time, for instance), she would be acting as a consumer and putting her personal will ahead of her consumers' subjective valuation. This kind of arrangement proves that the consumer of the entrepreneurial product does not directly guide the market by himself, but does so subjected to the value scales of the entrepreneur<sup>12</sup>.

Entrepreneurial activity also impacts the natural interest rate, this activity will tend to push that rate to the same uniform point in all markets and times - as it happens in the ERE (Rothbard, 2011, p. 183) - without never reaching that 'target' in the real world (Rothbard, 2004, p. 372). In a free market the interest rates are flexible and, as they follow entrepreneurial expectations, they will tend to uniformity (Rothbard, 2004, p. 445).

---

<sup>12</sup> Rothbard here could paraphrase Mises, while consumers are the captains of the ship, the ones that indicate where the ship should be going, entrepreneurs are the ones actually steering the wheel, and they could either misunderstand or choose not to obey the captain's commands.

Finally, Rothbard says that, for the individual entrepreneur, costs seem to determine prices, when in reality, they are determined by the future valuation of the final products in the market as foresaw by the entrepreneur. It is the role of the entrepreneur to anticipate the values she will be able to collect by exchanging the final products that she will make available on the future market and later, determine what costs she will be able to incur in that particular production process. The exchange-values of the products, that are reflected in their money prices, depend on their demand, that itself depends upon the subjective valuation that the consumers make of the products (Rothbard, 2004, p. 356).

In Rothbard, profits *and* losses are fundamental to the market process, rents and interest rates will tend to a given point, but never actually reach that point, and costs depend on consumer's future valuations on the products the entrepreneur aims at selling.

### **3. Controversies: Hayek, Kirzner, Schumpeter, the 'pure entrepreneur' and more**

A common subject in Rothbard's discussions on entrepreneurship is the position that Kirzner (1973) introduced in his "Entrepreneurship and competition". Kirzner talks about the 'pure entrepreneur' that takes advantage of previously existing opportunities by relying on his special state of 'alertness'<sup>13</sup>. Debates and controversies with other authors that deal with the subject also emerge, albeit from a less relevant extent.

---

<sup>13</sup> To Kirzner, the opportunity exists somewhere out there in the world, because she is alert, the entrepreneur will see that opportunity. Metaphorically, the Kirznerian entrepreneur sees a 100-dollar bill on the ground and take it, profiting from his alertness and entrepreneurial action. In the causal-realist tradition, the entrepreneur sees a part of something green that resembles a 100-dollar bill that seems to be stuck under a rock (the 'opportunity'). She observes that and, in case she decides to act to actually try to collect what she believes is the 100-dollar bill, she will have to advance resources, invest and face the uncertainty of, possibly, failing to find the previously foreseen profit (in case the 100-dollar

### 3.1 Rothbard on Kirzner and the ‘man of ideas’

In his review of Kirzner’s book, Rothbard (1974) discussion develops around the differences between the Misesian and the Kirznerian takes on the entrepreneur. Similar and complementary argument can be seen in later comments (Rothbard, 1985, p. 284, 1994, 2011).

Rothbard (1974, p. 902) starts his first review by recognizing that “Professor Kirzner’s volume is an outstanding contribution to the Mises-Hayek analysis of microeconomics” and that, up to that point, should be considered the best elaboration of the Mises-Hayek vision on entrepreneurship and competition as well as an important critique to the then dominant microeconomics approach. Rothbard praises Kirzner’s emphasis on the role of the entrepreneur as the one responsible for conveying information to the market not only about the prices, but also about the features of the product through marketing communication techniques. He agrees with Kirzner that the task of the entrepreneur is not finished if the potential consumers do not know about the available product. He claims that this is yet another service that the entrepreneur does to society, she informs the consumers about the availability of a tool to solve some problem that the consumers believe to have.

At the same time, Rothbard is very specific in pointing out Kirzner’s mistakes:

unfortunately, this valuable work is permeated with a basic error that played a minor role in Mises’ theory but is here elaborated into a central role. That is the “un-Austrian,” neo-classical view of the entrepreneur as a non-owning, almost ethereal being, who owns no capital and only

---

bill is not below the rock or in case he is not able to lift the rock in the first place, or in case someone else lifts the rock first or etc.) and end up failing and gaining losses. I thank Prof. Peter G. Klein for the causal-realist part of the metaphor.

operates by the pure force of his ideas and alertness  
(Rothbard, 1974, p. 903).

The Kirznerian entrepreneur is unrealistic, because it separates two different roles that cannot be separated in practice: the capitalist and the entrepreneur.

In another piece, Rothbard (2011, p. 178) points that the Hayekian entrepreneur (that would serve as the standing point to Kirzner's developments) starts from a state of complete ignorance and, little by little, learns about the world and the market as a whole using the signals provided by the price system, the market shares knowledge with the actors through the price system, mainly via the signals provided by profits and losses. This is clearly at odds with Rothbard's view of the entrepreneur that would need to collect information not only coming from prices, but from many other sources (Rothbard, 1988)<sup>14</sup>.

In that sense, Rothbard (1974, 1985, 2011) sees the Kirznerian entrepreneur as a curious, passive, being, who does not need to face any kind of risk, does not need to possess or control capital and, *de facto*, hardly acts as an entrepreneur in the Austrian tradition that came before Kirzner's work. Besides, the Kirznerian entrepreneur cannot be a monopolist, profits could not be related to capital rents because the alert individual does not need to possess capital. The Kirznerian entrepreneur does not face risk or uncertainty, she is a "[wo]man of ideas" that knows nothing but what she has learnt in the market through the price system (Rothbard 2011, p. 176). She depends only on her alertness to ontologically existing opportunities and is capable of profiting because, and exclusively because, of this state (Rothbard, 1985, p. 282).

She also faces no uncertainty, but if the Kirznerian entrepreneur does not face uncertainty risking her own capital, how can she profit? Can she lose? Rothbard (2011,

---

<sup>14</sup> A specific discussion on the differences between the Mises-Rothbard system and the Hayek-Kirzner system can be seen in Salerno (1993).

p. 176) responds saying that the Kirznerian entrepreneur cannot suffer losses. And according to Kirzner the only possible loss is the opportunity loss of not being alert to a possible gain (Rothbard, 1994, p. 559).

Kirzner tried to respond to Rothbard's criticism saying that the "[wo]man of ideas" can find a capitalist to invest, and thus does not need to risk her own capital, not facing uncertainty. The response does not satisfy Rothbard (1985, p. 283) that points out that 1. the capitalist, when borrowing money to the "[wo]man of ideas" becomes an entrepreneur and; 2. the "[wo]man of ideas", while receiving the capital, becomes a capitalist too.

Rothbard explains that they will both (the idea [wo]man and the borrower) face uncertainty and will together own the invested capital, the results of the production processes and the profit or loss. In case of an unsuccessful endeavor, losses will occur and, while the "[wo]man of ideas" will not owe anything to the capitalist, both will be worse off comparatively. The "[wo]man of ideas" will have his wealth reduced when compared to the time when she owned the endeavor. And even in the best of the cases of the Kirznerian entrepreneur, the arbitrageur, the actor is always and will always be subject to uncertainty<sup>15</sup>, something which Kirzner fails to recognize.

Rothbard recalls that Mises does make the theoretical distinction between the pure entrepreneur and the capitalist, and that Mises himself explicitly states that this is only a theoretical caveat and would be an impossible distinction in the real world. Rothbard (1985, p. 284; 1974, p. 903) says that the lack of attention to that explanation would have led Kirzner to incorrectly use and extend a minor idea in Mises' writings,

---

<sup>15</sup> E-commerce and electronic payments substantially increase the speed of transaction, it would be possible to try to practice arbitrage almost instantaneously, reducing uncertainty to a point very close to null. This remains, however, a theoretical possibility. Even in the cases of very rapid transactions, something could occur in between the two moments in which every single one of the transactions occur and the arbitrage opportunity may disappear or become a loss.

making that non-reality-oriented theoretical side note the center of the new “Austrian Theory” of entrepreneurship.

In a positive note, Rothbard suggests that Kirzner developed his theory of the entrepreneur and alertness in response to another deviation from the Misesian lines seen in the works of Kirzner’s friend, Ludwig M. Lachmann and his radical subjectivism. Lachmann did not believe in a tendency towards equilibrium in the market process, entrepreneurial alertness and its direction to correct errors would be a Kirznerian response to the Lachmannian random or kaleidoscopic future (Rothbard, 2011, p. 285).

About the entrepreneur in Lachmann, Rothbard (2011, p. 179) notes that it has no meaning or sense. This is so because the agents are incapable of learning, and even if they were capable, this would be pointless because knowledge about the past would not help at all in a kaleidoscopic, completely random and unpredictable future.

In later comments Rothbard (1994) recognizes that Kirzner was somewhat reproaching the Misesian theoretical line and the idea of the capitalist-entrepreneur. In that development, ‘alertness’ becomes one of the characteristics of the agent, not the single one. However, Kirzner still defended that the entrepreneur could not suffer losses, and could still profit. His only possible loss, as stated before, would be losing a profit opportunity (see Rothbard 1994, p. 559; and Gordon, 2019, p. 500, who agrees with Rothbard on the evolution in the Kirznerian thinking and the inconsistencies that persist).

### **3.2 Schumpeterian mistakes**

Schumpeter is, by many, somewhat associated to the Austrian School, not only because of his place of birth, but also because his history as being a student of Böhm-Bawerk and a contemporaneous of Mises in the University in Vienna, he does not receive many mentions in Rothbard’s writings on entrepreneurship.

In two brief assessments, Rothbard (1985, p. 285) strongly criticizes the Schumpeterian entrepreneur who is locked in the Walrasian equilibrium box and can only break that equilibrium with new money to be created by banks (Ferrero, 2019; Rothbard, 1987; Schumpeter, 1983).

At the same time, Schumpeter suggests that entrepreneurial profits would only be possible to innovators that would use that profit to pay back the banks that had created the money in the first place. Economic development and the inflationary bubble would be created by bank credit for the innovators to break the equilibrium, by consequence, a crisis to pop the bubble is necessary to bring about the equilibrium once again (Rothbard, 1985, p. 85, 1987). Rothbard's critiques on the (lack of) logical flow in Schumpeter's approach are very direct. He suggests that Schumpeter was incapable of providing a sound explanation for his own theory and became thereby 'trapped in the Walrasian box' trying to escape from it using complex, but flawed, logical argumentation.

Rothbard (1974, p. 902-3) praises Kirzner because the later refutes Schumpeter and demonstrates that the entrepreneur is not a disruptor of equilibrium, but is an instrument of the continuous market process in search for equilibrium. On the same lines, Rothbard (1987, pp. 104-105) says that the Schumpeterian system is incapable of explaining the continuous dynamism of the market process

In both cases, in Kirzner and Schumpeter, Rothbard's critiques are focused in his conviction about the theoretical foundations of the Austrian School and its empirically sustained axioms and logic. Rothbard stresses the his approach focus on the analysis of the real world not in abstract models or theoretical concepts (Rothbard, 1985, p. 286) is what differentiates his approach from the authors he criticizes.

### **3.3 What entrepreneurs must look for**

Rothbard (2011, p. 196-197) builds on Adam Smith's discussion about the unintended consequences of entrepreneurial activity - the benefits for the consumers that this activity naturally brings - to bring about the need to discuss and applaud the *intended consequences* of that same activity: the entrepreneur acts to improve, above all, his own personal conditions. He also (Rothbard, 1988, p. 10) talks about the importance of the division of labor and that not all individuals are capable of being entrepreneurs, therefore, some of them would be better-off joining "the ranks of the proletariat".

Rothbard adds, could that be that among the features that improve the entrepreneur's conditions would be her knowing that, by organizing the production processes, she would be improving the life of the consumer and of the society at large? In other words, are entrepreneurs interested in the good that they are able to do to others as a part of their profit? Could it be that knowing that they are contributing to improve other people's lives hurts them somehow?

He answers by stating that this kind of knowledge does have an impact in the entrepreneurial action and that it is a duty of the defenders of the free market to make entrepreneurs aware of the benefits of their activities, defending them from the fallacious statements that their profits somehow negatively impact society. When entrepreneurs believe in those fallacies, says Rothbard, they may act to deliberately reduce their profits and could end up making not only themselves but the whole society comparatively *worse off*.

### **3.4 The importance of good theory**

In his comment to the book edited by Caldwell & Boehm (1992), Rothbard (1994) introduces different critiques to the ways in which the Austrian School is depicted. On entrepreneurship specifically, Rothbard stresses the differences between the concept of uncertainty in Mises and Knight, to the later, risks that could not be

bought by insurance companies would be scientifically unpredictable (random), this logically leads to the conclusion that facing uncertainty is only a matter of luck and the role of the entrepreneur as a knowledgeable actor, as in the Misesian sense, is reduced or even eliminated.

In Mises, on the other hand, while predicting the future with mathematical certainty remains impossible, human beings - and particularly successful entrepreneurs - are capable of using their personal insight, comprehension, art (Rothbard, 2011, p. 174), their “*Verstehen*” to somehow ‘predict’ the future. Some entrepreneurs have a more accurate skill - modernly called “judgment” in the Austrian theory of entrepreneurship see Packard & Bylund (2019) - than others do. The difference in skill is reflected in the higher profits to the entrepreneurs with a better “*Verstehen*” and smaller profits or even losses to the ones in which this skill is not well developed or present. In an unhampered economy, through time and because the market will direct the resources to the most capable entrepreneurs, the less capable ones are expelled from the market for entrepreneurs and, again, should join the ranks of the proletariat.

Rothbard also affirms that the discussion on the entrepreneurial action being equilibrating or disequilibrating matters only in the Hayek-Kirzner approach. For Hayek (after the 1920’s) and Kirzner following him, the equilibrium is close (Rothbard, 1994, p. 560) and

“general equilibrium, while not actually extant, is right around the corner [...] is only in near, or virtual, equilibrium, whether that of Hayek, Kirzner, or Schumpeter, that entrepreneurial creativity would be at all disruptive or disequilibrating; in a Misesian market economy [...]creativity would simply and smoothly

change the remote equilibrium toward which the economy will be tending”<sup>16</sup>.

Rothbard (2011, p. 184) says that the entrepreneur acts because he, ex ante, believes his action will lead him to a better state of satisfaction, since the market process works, it follows that a big part of the entrepreneurial actions will, ex post, prove to be equilibrating - the entrepreneur will be more satisfied when compared to the time before the action, as she predicted before. In this sense, entrepreneurial action would be equilibrating because it would be leading to a state in which the entrepreneur is more satisfied with his own current state (Rothbard, 1987, p. 102)

The causal-realist vision of Mises, Rothbard, Salerno is the one in line with the theoretical foundations of the Austrian School and while Kirzner has narrowed the gap between his vision and the causal-realist one along time, Kirzner’s approach remains different and unaligned (Gordon, 2019, p. 499).

Kirzner does recognize that his approach has problems, but he is not capable of offering theoretically sound solutions. The core of the issue, as Rothbard pointed, is in the practical impossibility of separating the entrepreneur and the capitalist (impossibility that is recognized by Kirzner in his later works – see Gordon, 2019). In the debate Kirzner maintains his position that the pure entrepreneur and the capitalist can and should be theoretically split apart and that, albeit they, in practice, are carried by the same agent, it does not imply that the eventual losses are entrepreneurial per se. In the Kirznerian world, negative returns should be associated exclusively with the capitalistic function.

Because of that debate with Kirzner and its consequences, Rothbard puts lots of emphasis in reprehending the social sciences students for a tendency that he observes.

---

<sup>16</sup> On the topic of equilibrating or disequilibrating entrepreneurship and how it fits to the Austrian tradition see: BoStaph, 2013; D’Andrea & Mazzoni, 2019; Ferrero, 2019; Packard & Bylund, 2018.

He (Rothbard, 2011) suggests that students should not accept new ideas only because they are new, and that new ideas and developments are not necessarily better than the previous ones. Some of the fallacies partially based on the teachings of the Austrian School can be exemplified by the Kirznerian view that is still considered by many “the Austrian theory of the entrepreneur” and most people sympathetic to the school tend to think that it is the only one (Salerno, 2008, p. 189).

Rothbard stands for the need of a very hard nucleus of ideas that cannot and should not be stretched to accept somewhat related theoretical contributions. He says that the diffusion of the Austrian School after the 1970’s brought revisionists that tweaked the ideas and in many of their endeavors, were successful in causing confusion as did Lachmann on the discussions on equilibrium and Kirzner on entrepreneurship.

#### **4. The Rothbardian theory of Entrepreneurship**

The past sessions presented the various characteristics of Rothbard’s thinking about entrepreneurship and the economic role of the man of action as well as his ideas about what is incorrect about other author’s approaches. Based on what has been demonstrated, it is now possible to outline what would have been the Rothbardian theory of entrepreneurship.

The central idea is that the entrepreneur only exists when a production process is in place, she only exists when the action of production for the market is in place. The entrepreneur will, based on the other options available in the market and in the amount of profit that she believes she will be able to make, acquire and arrange physical capital and knowledge and, using her judgment, her *Verstehen*, will face the uncertainty of the market process to try to fulfill future consumer demands in search for profit. The capitalist-entrepreneur not only owns the production process and its outcomes before

sales, but is also responsible for guiding it along time and making it responsive to the market dynamism.

In that investment process, the successful entrepreneur will be rewarded with up to four different sources of revenue: return on capital (for renting the capital to the firm), managerial payment (for acting as a manager), entrepreneurial rent (for the decision-making function) and pure profit (for facing uncertainty). Unfortunately, it is not possible, in practice, to disentangle those four, the entrepreneur receives his returns and knows their sources, but cannot point exactly to the contribution of each of them. The majority of these revenues come in monetary terms, but psychological profit cannot be set aside.

In financial terms, to configure financial profit, the monetary reward has to be higher than the average market interest rate for productive resources. On the other hand, the unsuccessful entrepreneur will incur losses, she will be worse off after the endeavor than she was during its existence and this is measured by comparing the returns of the entrepreneur to the possible returns that she would have for the same capital invested elsewhere in the market.

As a consequence of this approach, the theory of entrepreneurship cannot be separated from the theory of the firm, they are one and the same. The firm, as the place in the economic process where the production to exchange happens, cannot exist without the entrepreneur to think about it, put together the needed resources and direct the efforts according to his beliefs and judgment. In this process the entrepreneur hires and pays for productive factors, including individuals as wage-earners, that are released from the need of having to face uncertainty. No production can take place outside of the

entrepreneur's direction, without the entrepreneur nothing can be produced for the market, so much so that entrepreneurs and firms cannot exist without one another<sup>17</sup>.

But given the importance of the entrepreneur for Rothbard, one can speculate: why did he never dedicated to write a standalone treatise on this economic role? The best answer to lies in the Rothbardian approach itself.

As I have shown, the entrepreneur is omnipresent in Rothbard's theoretical framework. She is the *central* piece in the Rothbardian theory of production. Looking from this point of view, it seems to be pointless to talk about the entrepreneur as a standalone entity, because the definition of entrepreneur implies an agent that starts a production process needed to put forward her entrepreneurial idea. Talking about production process without talking about the entrepreneur is vain, and Rothbard offered very important, one could argue that the most important of his economic writings, in the theory of production.

Two of Rothbard's pieces come close to an exclusive discussion on entrepreneurship, the aforementioned comments on Kirzner (1974) and Hebener (1985). However, the Rothbardian theory is not fully outlined in those two pieces that, as responses, are focused in discussing problems with others' approaches. In MES, while discussing the Theory of Production, Rothbard emphasizes the economic role of the entrepreneur and provides its theoretical foundations; this emphasis is seen specifically in Chapter 8, but chapters, 1, 9 and 10 also present contributions.

In the end, Rothbard believed that the treatments given to the Theory of Production and the fundamental role played by the entrepreneur in this theory (as I said, covered in different chapters in MES) seemed to sufficiently state his considerations

---

<sup>17</sup> The reader should remember that, for Rothbard, entrepreneurship is *production for the market* (my emphasis) (Rothbard, 2004, p. 158). Any production that is not intended to be exchanged, for instance, that happens inside the household or in subsistence farms that have no contact to the external world, is not entrepreneurship and therefore, is not under consideration.

about the role of the entrepreneur and this would make a standalone treatment of the agent itself unnecessary.

### **5. Conclusions, past, present and future**

When they face uncertainty in a dynamic world, business people, the ones that command production processes aimed at fulfilling a foreseeable demand in the market, execute the entrepreneurial function. Being owners, they are also capitalists, they provide the resources necessary to finance work and capital for which they are compensated with rent (interest on their capital) and are entitled to whatever the firm produces, profits and losses. These individuals may exercise the decision-making function and may also exercise the managerial function at the same time, when those two things occur simultaneously, entrepreneurs are also be paid the manager' salary (Rothbard, 2004, p. 601). The total return to entrepreneurial action can thus be formed by up to four parts that are almost indistinguishable in the real world.

The Rothbardian contributions build upon and clarify the authors before him (Menger, Böhm-Bawerk, Fetter, and others), including the “uncharacteristic lack of clarity in Mises' discussion of entrepreneurship” (Rothbard, 1985, p. 284). To the point that some ideas in the Rothbardian framework can be seen as restatements and clarifications of Mises's (especially 1998, 2008) expositions. However, the fact that some of the Rothbardian discussions are mainly clarification does not diminish the contributions, because: 1. Rothbard solved the confusion derived from Kirzner's approach thereby properly repositioning the theory of entrepreneurship in the causal-realist approach and, maybe more importantly, 2. because he made explicit the connection between the entrepreneur and the production process and thereby its entity, the firm.

By presenting Rothbard's approach I contribute to clarify the discussion on the entrepreneurship literature derived from the Kirznerian "opportunity identification/recognition" idea (Alvarez & Barney, 2007; N. J. Foss & Klein, 2018; Shane, 2003; Shane & Venkataraman, 2000). This paper helps to show that the opportunity approach lacks logical consistency and that the conclusions derived from this approach should be looked at with caution. Authors studying entrepreneurship in economics and management should be aware of the causal-realist approach represented by the Mises-Rothbard tradition and how that can guide their theoretical developments.

Authors such as Salerno (2008) and Klein (N. J. Foss & Klein, 2010, 2012, 2018; Klein, 2010, 2017) followed the tradition of the "integral entrepreneur" (Salerno, 2008, p. 190) and were able to continue the theoretical development both in economics and in management to the point that the Judgment Based Entrepreneurship – JBA, has been adopted by a considerable part of the mainstream scholarly discussion on entrepreneurship. The Rothbardian contributions can, directly and indirectly, also be seen more recently, authors such as Packard (Packard, 2019; Packard, Clark, & Klein, 2014), McCaffrey (N. J. Foss, Klein, & McCaffrey, 2019; McCaffrey, 2018) and especially in Bylund (P. Bylund, 2020; 2016) that have made further theoretical advances in economic theory, including in the theory of the firm.

Rothbard is to be credited by defending the Menger-Böhm-Bawerk-Mises theory of the entrepreneur as a man of action and inseparable of the capitalist. He stood against the Hayek-Kirzner takeover of the "Austrian theory of entrepreneurship" and sustained that entrepreneurship is based on possession, control and direction of resources aimed at producing for the market, together with uncertainty and the possibility of profits and losses in a dynamic world. Without Rothbard's strong defense against which seemed to have been established as "the" Austrian view - connected to

the idea of alertness and opportunities that are ontologically existent ‘out there’ - the developments and the comprehension that we now have about entrepreneurship and the entrepreneur would most probably not be as profound and the whole Austrian approach would for sure be very different.

Rothbard (2000) also explained how entrepreneurs respond to different phases of the business cycle and area that, in spite of some developments (Engelhardt, 2012; Evans & Baxendale, 2008; Hülsmann, 1998; Miller, 2012; Wagner, 1999) still has needs to be further explored, it is necessary to better understand how the “cluster of entrepreneurial error” comes into existence. Moreover, Rothbard suggested pathways for a better understanding of how the economic role of the entrepreneur and the coercion/power-based agents are different (Rothbard, 2004). HE states that those are not the same kind of economic agent and that a clear separation must be drawn.

He (Rothbard, 2006b, 2006a) also informed us about how different scholars through time treated entrepreneurship, those contributions provide a valid guidance to the theoretical study of the matter in the lights of the history of economic thought (HET).

Rothbard’s theory of production is perhaps one of his most important contributions to economics. This is so also because it integrated the entrepreneur. Further and more elaborated comparisons of Rothbard’s ideas on the theory of production and entrepreneurship with the ones presented by Mises, Fetter, Knight’s and Schumpeter’s would be fruitful.

How to reconcile the Rothbardian position that the entrepreneur has to bear uncertainty with the derived-judgment idea (K. Foss, Foss, & Klein, 2007)? Can managers that exercise derived judgment and that, most probably, do not carry the financial burden, still be considered intrapreneurs?

What does the Rothbardian theory has to say about speculative stockowners (traders)? How about the passive stockowners (holders)? Are they as entrepreneurial as the stockowners that actively participate in their company's decisions or that are 'alert' to stock market movements at least to the possibilities of buying and selling their shares? How can all those different approaches to owning shares be integrated into the theory of entrepreneurship?

How can the Rothbardian approach clarify the discussion about individuals that work mostly for the psychic profit, can they be considered entrepreneurial? What does the causal-realist approach have to say about market actions of individuals that work in non-commercial, but still free-market, ventures such as NGO's and think-thanks? How about social-entrepreneurship? All those questions indicate different avenues to be pursued by scholars interested in entrepreneurship.

On a broader approach, Rothbard (1989) reminds us that ideas will influence the public. He uses Mises' example reminding that his Professor educated businessmen and entrepreneurs about the benefits of the unhampered market and suggested that the public, the laymen, should be taught about the benefits of a free market.

Being able to defend entrepreneurs (and even this specific word) from the attacks offered by a part of the society, including academics and journalists, is necessary. Contrary to words such as 'liberal' and 'capitalist', that are used mostly as synonyms of greedy, the word 'entrepreneur' has not (yet) been completely resignified.

Maybe 'entrepreneur' is the most important of those words because it refers to the engine of the market, the one that organizes and guides production processes that aim at production for the consumption of the laymen. As soon as one accepts that 'political entrepreneurs', rent seekers, robbers and thieves are as entrepreneurial as the man of action, then much of the work of Rothbard in that regard is lost.

This review gives people interested in entrepreneurship, in Austrian economics and particularly in the work Rothbard a comprehensive exposition of his thoughts on entrepreneurship and provides his would be theory of the entrepreneur, one that cannot be logically disentangled from the theory of the firm. In that sense, it also suggests how those thoughts have developed in the hands of authors that followed his teachings, especially, but not limited to Salerno, Klein, Bylund and McCaffrey. The point here is not to expose nor discuss those developments, but to point that, to a great extent, they would not exist without the Rothbardian contributions.

The theory of entrepreneurship is probably the most impactful theoretical contribution offered by the Austrian School to the broader economic knowledge. The impact of the ideas defended, clarified, and finally (re)launched by Rothbard has been growing and spreading to areas such as the theory of the firm, strategy and marketing.

Rothbard's contributions and clarifications in the theory of entrepreneurship had not been previously systematized, this paper did it, it also clarified his points of disagreement with other Austrian-inspired ideas. By doing this, I provide a stepping stone to research that develops the causal-realist tradition of the Austrian School in entrepreneurship research and beyond.

## References

- Alvarez, S. A., Audretsch, D., & Link, A. N. (2016). Advancing Our Understanding of Theory in Entrepreneurship. *Strategic Entrepreneurship Journal*, 10(1), 3–4. <https://doi.org/10.1002/sej.1216>
- Alvarez, S. A., & Barney, J. B. (2007). The Entrepreneurial Theory of the Firm. *Journal of Management Studies*, 44(7), 1057–1063. <https://doi.org/10.1111/j.1467-6486.2007.00721.x>
- Böhm-Bawerk, E. v. (1890). *Capital And Interest A Critical History of Economical Theory* (Translated). London and New York: MacMillan and Co.
- BoStaph, S. (2013). Driving the market process: “Alertness” versus Innovation and Creative Destruction. *Quarterly Journal of Austrian Economics*, 16(4), 421–458.
- Bylund, P. (2020). Finding the Entrepreneur-Promoter: A Praxeological Inquiry. *Quarterly Journal of Austrian Economics*, 23(3–4), 355–389. <https://doi.org/10.35297/qjae.010074>
- Bylund, P. L. (2016). *The problem of production: a new theory of the firm*. Routledge.
- Caldwell, B., & Boehm, S. (Eds.). (1992). *Austrian Economics: Tensions and New Directions*. Boston, Dordrecht and London: Kluwer Academic Publishers.
- D’Andrea, F. A. M. C., & Mazzoni, J. F. (2019). For a less dramatic creative destruction. *MISES: Interdisciplinary Journal of Philosophy, Law and Economics*, 7(3). <https://doi.org/10.30800/mises.2019.v7.1245>
- Engelhardt, L. (2012). Expansionary monetary policy and decreasing entrepreneurial quality. *Quarterly*

- Journal of Austrian Economics*, 15(2), 172–194.
- Evans, A. J., & Baxendale, T. (2008). Austrian Business Cycle Theory in Light of Rational Expectations: The Role of Heterogeneity, the Monetary Footprint, and Adverse Selection in Monetary Expansion. *The Quarterly Journal of Austrian Economics*, 11(2), 81–93. <https://doi.org/10.1007/s12113-008-9034-6>
- Ferrero, B. (2019). Are Structural Fluctuations Natural or Policy-Induced? Analyzing Mises's and Schumpeter's Contributions to Business Cycle Theory. *Quarterly Journal of Austrian Economics*, 22(2). <https://doi.org/10.35297/qjae.010011>
- Foss, K., Foss, N. J., & Klein, P. G. (2007). Original and Derived Judgment: An Entrepreneurial Theory of Economic Organization. *Organization Studies*, 28(12), 1893–1912. <https://doi.org/10.1177/01708406060676179>
- Foss, N. J., & Klein, P. G. (2010). Alertness, Action, and the Antecedents of Entrepreneurship. *The Journal of Private Enterprise*, 25(2), 145–164.
- Foss, N. J., & Klein, P. G. (2012). *Organizing entrepreneurial judgment : a new approach to the firm*. Cambridge University Press.
- Foss, N. J., & Klein, P. G. (2017). Entrepreneurial Discovery or Creation? In Search of the Middle Ground. *Academy of Management Review*, 42(4), 733–736. <https://doi.org/10.5465/amr.2016.0046>
- Foss, N. J., & Klein, P. G. (2018). Entrepreneurial Opportunities: Who Needs Them? *Academy of Management Perspectives*, amp.2017.0181. <https://doi.org/10.5465/amp.2017.0181>
- Foss, N. J., Klein, P. G., & McCaffrey, M. (2019). *Austrian Perspectives on Entrepreneurship, Strategy, and Organization*. Cambridge, UK: Cambridge University Press. <https://doi.org/10.1017/9781108777742>
- Gordon, D. (2019). Book Review Reflections on Ethics, Freedom, Welfare Economics, Policy, and the Legacy of Austrian Economics Israel M. Kirzner. Eds. Peter J. Boettke and Frédéric Sautet Carmel. *Quarterly Journal of Austrian Economics*, 22(3), 498–502.
- Hastings, H. (2019). 8 Austrian Actions for 2020. Retrieved February 15, 2020, from <https://hunterhastings.com/8-austrian-actions-for-2020/>
- Hülsmann, J. G. (1998). Toward a General Theory of Error Cycles. *The Quarterly Journal of Austrian Economics*, 1(4), 1–23.
- Kirzner, I. M. (1973). *Competition and entrepreneurship*. University of Chicago Press.
- Klein, P. G. (2010). *The Capitalist & The Entrepreneur*. Auburn, Alabama, USA: Ludwig von Mises Institute.
- Klein, P. G. (2017). An Austrian Perspective on Firms and Markets: My Contributions to Entrepreneurship Theory. In D. B. Audretsch & E. E. Lehmann (Eds.), *The Routledge Companion to the Makers of Modern Entrepreneurship* (pp. 146–153). New York, NY, USA: Routledge.
- Lachmann, L. M. (1976). From Mises to Shackle: An Essay on Austrian Economics and the Kaleidic Society. *Journal of Economic Literature*, 14(1), 54–62.
- McCaffrey, M. (2015). Economic policy and entrepreneurship: alertness or judgment? In D. Howden & P. L. Bylund (Eds.), *The Next Generation of Austrian Economics: Essays in Honor of Joseph T. Salerno*. Auburn, AL, USA: Ludwig von Mises Institute.
- McCaffrey, M. (2018). Extending the Economic Foundations of Entrepreneurship Research. *European Management Review*, 15(2), 191–199. <https://doi.org/10.1111/emre.12158>
- Mcmullen, J. S. (2015). Entrepreneurial judgment as empathic accuracy: a sequential decision-making approach to entrepreneurial action. *Journal of Institutional Economics*, 11(3), 651–681. <https://doi.org/10.1017/S1744137413000386>
- Miller, R. C. (2012). Systemic appraisal optimism and Austrian business cycle theory. *Quarterly Journal of Austrian Economics*, 15(4), 432–442.
- Packard, M. D. (2019). The Nirvana State of Rest. *MISES: Interdisciplinary Journal of Philosophy, Law and Economics*, 7(Special Issue on Entrepreneurship).
- Packard, M. D., & Bylund, P. L. (2018). On the relationship between inequality and entrepreneurship. *Strategic Entrepreneurship Journal*, 12(1), 3–22. <https://doi.org/10.1002/sej.1270>
- Packard, M. D., & Bylund, P. L. (2019). What is Entrepreneurial Judgment, Anyway? *Academy of Management Proceedings*, 2019(1), 17838. <https://doi.org/10.5465/AMBPP.2019.17838abstract>
- Packard, M. D., Clark, B., & Klein, P. G. (2014). An Exploration into the Nature of Entrepreneurial Uncertainty. *Academy of Management Proceedings*, 2014(1), 16840. <https://doi.org/10.5465/ambpp.2014.16840abstract>
- Rothbard, M. N. (1974). Review of Competition and Entrepreneurship by Israel M. Kirzner. *Journal of Economic Literature*, 12(3), 902–904.
- Rothbard, M. N. (1985). Professor Hébert on Entrepreneurship. *The Journal of Liberian Studies*, VII(2), 281–286.

- Rothbard, M. N. (1987). Breaking out of the Walrasian box: the cases of Schumpeter and Hansen. *Review of Austrian Economics*, 1(1), 97–108. Retrieved from [https://cdn.mises.org/rae1\\_1\\_6\\_2.pdf](https://cdn.mises.org/rae1_1_6_2.pdf)
- Rothbard, M. N. (1988). The Libertarian Family and Entrepreneurship. *Liberty*, 9–10. Retrieved from [https://libertyunbound.com/wp-content/uploads/2020/08/Liberty\\_Magazine\\_July\\_1988.pdf](https://libertyunbound.com/wp-content/uploads/2020/08/Liberty_Magazine_July_1988.pdf)
- Rothbard, M. N. (1989). *The Future of Austrian Economics*. Auburn, Alabama, USA: Mises Institute. Retrieved from <https://www.youtube.com/watch?v=KWdUIuID8ag&t=55s>
- Rothbard, M. N. (1991). The end of socialism and the calculation debate revisited. *The Review of Austrian Economics*, 5(2), 51–76. <https://doi.org/10.1007/BF02426928>
- Rothbard, M. N. (1994). Review: Austrian Economics: Tensions and New Directions by Bruce Caldwell and Stephan Boehm. *Southern Economic Journal*, 61(2), 559–560.
- Rothbard, M. N. (1997). Professor Kirzner on Entrepreneurship. In *The Logic of Action: Applications and Criticism from the Austrian School* (Vol. 2, pp. 245–253). Lyme, N.H.: Edward Elgar Publishing.
- Rothbard, M. N. (2000). *America's Great Depression* (5th Editio). Auburn, AL, USA: Mises Institute.
- Rothbard, M. N. (2004). *Man, Economy, and State A Treatise on Economic Principles with Power and Market Government and the Economy* (Second). Auburn, Alabama, USA: Ludwig von Mises Institute.
- Rothbard, M. N. (2006a). *Classical Economics: An Austrian Perspective on the History of Economic Thought Volume II*. Auburn, AL, USA: Ludwig von Mises Institute.
- Rothbard, M. N. (2006b). *Economic Thought Before Adam Smith An Austrian Perspective on the History of Economic Thought Volume I*. Auburn, AL, USA: Ludwig von Mises Institute.
- Rothbard, M. N. (2011). The Present State of Austrian Economics" in Rothbard. In *Economic Controversies* (pp. 161–224). Auburn, Alabama, USA: Mises Institute.
- Salerno, J. T. (1993). Mises and hayek dehomogenized. *The Review of Austrian Economics*, 6(2), 113–146. <https://doi.org/10.1007/BF00842707>
- Salerno, J. T. (2002). The rebirth of austrian economics—in light of austrian economics. *The Quarterly Journal of Austrian Economics*, 5(4), 111–128. <https://doi.org/10.1007/s12113-002-1008-5>
- Salerno, J. T. (2004). Introduction to Man, Economy, and State with Power and Market. In *Man, Economy, and State A Treatise on Economic Principles with Power and Market Government and the Economy* (2nd ed., pp. xix–1). Auburn, AL, USA: Ludwig von Mises Institute.
- Salerno, J. T. (2008). The Entrepreneur: Real and Imagined. *The Quarterly Journal of Austrian Economics*, 11(3–4), 188–207. <https://doi.org/10.1007/s12113-008-9043-5>
- Schumpeter, J. A. (1983). *Theory of Economic Development*. New Brunswick, NJ, USA: Transaction Publishers.
- Shane, S. A. (2003). *A General Theory of Entrepreneurship: The Individual-opportunity Nexus*. Edward Elgar Publishing.
- Shane, S. A., & Venkataraman, S. (2000). The Promise of Entrepreneurship as a Field of Research. *The Academy of Management Review*, 25(1), 217–226.
- Townsend, D. M., Hunt, R. A., McMullen, J. S., & Sarasvathy, S. D. (2018). Uncertainty, Knowledge Problems, and Entrepreneurial Action. *Academy of Management Annals*, 12(2), 659–687. <https://doi.org/10.5465/annals.2016.0109>
- Wagner, R. E. (1999). Austrian Cycle Theory: Saving the Wheat while Discarding the Chaff. *Review of Austrian Economics*, 12, 65–80.