

**REFLECTIONS ON ETHICS,
FREEDOM, WELFARE ECONOMICS,
POLICY, AND THE LEGACY OF
AUSTRIAN ECONOMICS**

THE COLLECTED WORKS OF ISRAEL M. KIRZNER

Austrian Subjectivism and the Emergence of

Entrepreneurship Theory

Competition, Economic Planning, and the

Knowledge Problem

Competition and Entrepreneurship

Discovery, Capitalism, and Distributive Justice

The Economic Point of View

Essays on Capital and Interest

The Essence of Entrepreneurship and the Nature and

Significance of Market Process

Ludwig von Mises: The Man and His Economics

Market Theory and the Price System

Reflections on Ethics, Freedom, Welfare Economics, Policy,

and the Legacy of Austrian Economics

ISRAEL M. KIRZNER

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Welfare Economics, Policy,
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Economics**

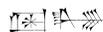
Edited and with an Introduction by

PETER J. BOETTKE and FRÉDÉRIC SAUTET



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The cuneiform inscription that serves as our logo and as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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INTRODUCTION TO THE LIBERTY FUND EDITION

This volume in Israel Kirzner's *Collected Works* comprises a series of subjects that modern-day economists do not often explore. Indeed, this volume is largely dedicated to the normative aspect of Kirzner's research. The Austrian school of economics is well known for its free market approach; Kirzner's work is no exception. Throughout his career, he has consistently argued in favor of the free market as a desirable social system and has never been shy to defend his normative views against attacks. While many modern economists are reluctant to be known for their policy stance, especially one favoring the free enterprise system and private property, Kirzner's position is a reminder of the attitude of most economists before World War II.

Indeed, from the days of Adam Smith in eighteenth-century Scotland to those of Friedrich Hayek, Arnold Plant, and Lionel Robbins at the London School of Economics in the 1930s, most economists have been staunch defenders of economic freedom. The sect of economists, as it was called in continental Europe at the time of Frédéric Bastiat in the mid-nineteenth century, was known for its fierce opposition to government encroachments in the daily lives of citizens and its support for free trade, low taxes, and a fair administration of justice. That state of affairs changed, however, at the turn of the twentieth century with the rise of Fabian socialism in England and of the progressive movement in the United States. The economist's role in society evolved further in the 1930s with the Keynesian transformation.

In the wake of the Great Depression, mainstream economic thinking abandoned the traditional economists' defense of the market economy and instead developed varying recommendations for an "economics of control," justifying government regulation to curb microeconomic inefficiency on the one hand and government management of aggregate demand to ensure full employment and economic growth on the other. Moreover, economists began to advocate a variety of public policies that would produce a more equitable distribution of income. The age of economic laissez-faire gave way to one of progressive politics and economic management. These policies were supposed to mend the social

ills of capitalism and correctly balance the trade-offs between equity and efficiency, stability and creative destruction, and security and prosperity. The New Deal gave way to the Fair Deal and eventually to the Great Society. It was in that intellectual climate of post-World War II that Israel Kirzner developed his approach to economic science and policy analysis.

Kirzner has applied his thinking to ethics, political philosophy, and public policy for a large part of his career. Friedrich Hayek, Ludwig von Mises, Max Weber, and Philip Wicksteed, among others, have shaped his intellectual path. Fundamentally Kirzner contends that in order to make ethical judgments about a social system, one must first understand the science behind it. In other words, having good knowledge of the principles that govern markets is a prerequisite for ethical statements about them. It is only through a clear grasp of the fundamental concepts of economic science, such as profit, interest, and entrepreneurship, that one can make true statements about welfare economics, the morality of market transactions, and policy issues. This places economics at the heart of most discussions on social systems.

While he has taken normative positions, Kirzner, following Mises, has also continuously affirmed the *Wertfrei* character of economics. Economics per se is concerned with establishing causes and effects, not with judging whether certain outcomes are desirable. This leaves economists the freedom to explain the consequences of minimum wage laws without sacrificing the value-free aspect of economics. Rejecting minimum wage laws because they cannot achieve full employment does not mean that one sacrifices *Wertfreiheit*.

Fundamentally Kirzner's work on ethics, political philosophy, and public policy has consisted in applying the insights he gained from his work on the market process to those fields. In Kirzner's view, the justifications for many public policies are based on various claims amounting to government omniscience. Instead, policy makers should rely on the entrepreneurial process, as it is the only way opportunities for the betterment of individuals can be eventually discovered and seized. As Kirzner explained many years ago in *Competition and Entrepreneurship*, "The crucial question for government-market comparisons [as alternative social devices for allocating resources] must concern the capacity of each of the two systems *to bring available opportunities to the attention*

of *decision-makers*.”¹ In the absence of the profit and loss mechanism, there is no reason to expect that socially desirable opportunities will be discovered.

It is also through the consistent application of his insights on the role of the entrepreneurial function that Kirzner established the crucial difference between the notion of entrepreneurial discovery on the one hand and that of the entrepreneurial process on the other. The latter refers to the continual and simultaneous entrepreneurial discoveries that create a systematic process of adjustment in the allocation of resources in society. The existence of entrepreneurial discoveries does not imply the presence of an entrepreneurial process. This distinction is crucial to Kirzner’s view of (a) the emergence of institutions and (b) the extent to which economics can be applied to non-market cases.

Overall, the implications of Kirzner’s stance for public policy can be devastating, as “one is surely entitled to question the appropriateness of labeling *inefficient* an allocation of resources whose inefficiency no one, including the welfare theorist, has been able to discover.”² Kirzner’s approach questions the validity of many conclusions of popular policy views, such as the presence of widespread market failures and the effects of knowledge spillovers. Kirzner’s insights reinforce the skeptical view of public policy that economists such as Ronald Coase, Armen Alchian, and Yale Brozen have developed since the 1960s.

This volume contains nine sections. The first eight sections offer Kirzner’s reflections on the role of individual freedom, the nature of economic science, welfare economics, ethics and morality, institutions, public policy, economic education, and the legacy of Austrian economics. These sections are extremely rich in reflections. The welfare economics section comprises Kirzner’s papers on coordination as a welfare criterion. The section on policy contains Kirzner’s work on taxation and regulation in which he applies his market process perspective to age-old questions of economic policy. This section also includes a paper on anti-trust policy that was originally published in Spanish and is now presented in its

1. Israel M. Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973; repr. Indianapolis: Liberty Fund, 2013), p. 184 (italics in the original). Citations refer to the Liberty Fund edition.

2. *Competition and Entrepreneurship*, p. 188.

original English version for the first time.³ Note also that the section on the legacy of Austrian economics includes eulogies of Friedrich Hayek and Ludwig Lachmann.

The last section contains three long interviews of Kirzner. Stephen Boehm conducted the first interview in 1989. The Ludwig von Mises Institute published Kirzner's second interview in 1997. Finally, the editors of this volume conducted their own interview with the author in 2006.

ACKNOWLEDGMENTS

We would first like to thank wholeheartedly Israel Kirzner for his unparalleled contribution to economic science. Kirzner's research program has deeply enriched the discipline and has shed light on some of economics' most difficult puzzles. Economists owe him an immense intellectual debt.

The publication of *The Collected Works of Israel M. Kirzner* would not be a reality without the participation of Liberty Fund, Inc. We are extremely grateful to Liberty Fund, and especially Emilio Pacheco, for making this project possible. To republish Kirzner's unique *œuvre* has been on our minds since our time spent at New York University in the 1990s—where one of us was a professor (Peter) and the other a post-doc student (Frédéric). We are thrilled at the idea that current and future generations of economists and other scholars will have easy access to Kirzner's works.

Finally, we wish to thank Emily Washington for her invaluable help in the publication of this volume.

Peter J. Boettke and Frédéric Sautet

3. The title is "The Goals of Anti-Trust: A Critique."

**ECONOMICS,
MARKETS, AND
INDIVIDUAL
FREEDOM**

ENTREPRENEURSHIP, CHOICE, AND FREEDOM

The concept of freedom is notoriously difficult to pin down. Philosophers and social scientists have exercised extraordinary ingenuity and subtlety in identifying the slight variations in meaning separating the many writers who have attempted to define freedom. Economists, perhaps more than others, have been subject to strong temptation to altogether overlook what should surely be considered an important, if not the essential, aspect of human freedom. The task of pointing out the source of this possible confusion presents, it will turn out, an opportunity worthwhile not only for its own sake, but also for its help in understanding the role of freedom in achieving social efficiency and in assessing the consequences for society of its curtailment. Stigler has recently challenged those who see the growth of the modern state as a danger to liberty to specify concretely the liberties that have been, in fact, impaired by this growth.¹ I shall argue that a proper understanding of liberty suggests that, in the very nature of things, such specification cannot be expected; moreover such proper understanding, it can be shown, reveals the loss of liberty that results from the growth of government in a manner so convincing as to render such specification hardly necessary.

FREEDOM, CHOICE, AND ECONOMICS

Among the multitude of meanings attached to the notion of freedom, it is widely held to pertain to some or other aspect of choice. And this circumstance seems responsible for what I shall argue to be the overly narrow perception of individual freedom that holds peculiar temptation for economists. Choice is, after all, very much a matter of concern to the economist. Efficiency—the norm for economic discussion—has everything to do with correct choice; rationality in choice is the assumption basic to the main body of economic theory, and economics itself is

Presented at a meeting of the Southern Economic Association, Washington, D.C., November 1978. From *Perception, Opportunity, and Profit: Studies in the Theory of Entrepreneurship* (Chicago and London: University of Chicago Press, 1979), 225–39. Reprinted by permission of Lucius & Lucius Verlagsgesellschaft mbH; the original source is *ORDO: Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, 1979.

defined in terms of the choices people make concerning the allocation of scarce means to satisfy multiple competing ends. But this preoccupation by the economist with choice, one may argue, is responsible for the incomplete appreciation of freedom that seems to pervade much economic literature.

The problem is easily presented. Choice, for the economist, has come to mean the solution of a maximization problem. The economist sees the decision maker, whether consumer, producer, or resource owner, as allocating given means in such a way as to maximize the value of ends attained, with the relative rankings of the various ends seen as given. Freedom of choice refers to agent's liberty to select those courses of action he sees as maximizing his utility (or profit, or whatever else is seen as being maximized). Limitations on freedom take the form of prohibitions or constraints that prevent one's attaining goals that might otherwise be selected.

Basic to choice for the economist, then, is the *given* character of both ends and means.² The hierarchy of ends worthy of attainment is given; the constellation of means capable of achieving the various ends is also given. The act of choice is seen as occurring within the framework of this given ranking of ends and constellation of means. Freedom of choice, as well as limitations on such freedom, then, is viewed only as it impinges on the situation of the economizing individual *facing his given ends-means framework*. No matter what constraints, limitations, or prohibitions may be imposed on the economizing individual, they touch his freedom of choice not at all, for the economist, so long as they do not affect his ability to achieve the optimum position *relevant to and implicit in the given ends-means environment*.

It is here that confusion is found. No matter how important the problem of efficient decision making against the background of given ends and means may be, it represents only one narrow aspect of the human condition. As Mises,³ Shackle,⁴ and Lachmann⁵ have again and again reminded us, the economist's view of the decision abstracts from elements that are crucial to the true character of human choice. The notion of given ends and means may be useful for certain purposes, but it does serious violence to the full reality of choice. The acting person never approaches the moment of decision *already* equipped with a clear, given picture of the relevant ends and means. It is *only at the moment of decision itself* that man is compelled to bring to some kind of focus all his doubts

and conjectures concerning what goals are worth pursuing and what resources and technologies are available. The choices of people subject to unexplainable whims and taste changes—operating in a world whose realities are by no means immediately apparent and moreover characterized by continuous, kaleidic change—can hardly be subsumed, without serious strain, under the heading of maximizing calculations.

Once this broader view of choice is recognized, the notion of freedom of choice is surely seen to mean far more than the ability to realize a calculated optimum position. Freedom of choice can now be seen to encompass the liberty *to make up one's own mind as to the ranking of the ends to be pursued and the means judged available for the purpose*. Once a given ends-means framework has been adopted, freedom can only mean the freedom to achieve what one has already announced that one wishes to achieve. It is this narrow view of freedom that many economists seem to have adopted. But, with the acting man seen as approaching choice without having firmly adopted any one framework of ends and means, freedom of choice is at once seen as freedom to announce (i.e., to choose) what it is one wishes to achieve.

We may, to put it more bluntly, say that the narrow view of freedom we have attributed to the standard economist's conception of choice turns out to involve no choice at all. One has, in this conception of choice, in effect already chosen *before* the moment of decision. With given ranking of ends and with given means, the optimum position is fully implied in the data. Freedom, as well as its curtailment, can in such assumed circumstances refer only to the ability to achieve a given goal (or to its curtailment).⁶ On the other hand, the wider view of freedom recognizes that, when people refer to the freedom to choose, they have in mind liberty to select among a wide range of moral and value frameworks, of ethical systems, of tastes; to make their own guesses concerning present realities and future uncertainties; to determine for themselves what opportunities they are in fact confronted with.

The above discussion can be stated concisely using the contrast I have elsewhere drawn between the Robbinsian allocation, maximizing view of the economizing decision and the Misesian entrepreneurial view of human action.⁷ For the Robbinsian decision maker freedom means freedom to proceed to where one (already) wishes to be; for the Misesian entrepreneurial human agent, freedom means freedom to discover and to determine for oneself where it is that one wishes to be.⁸

FREEDOM AND POWER

The foregoing may throw light on the much-discussed confusion between *freedom* and *power*. Economists have tended to succumb to the temptation to define freedom so as to make it indistinguishable from power. For these writers, freedom means simply the ability to attain what one wishes to attain.⁹ A small number of writers, among economists notably Hayek¹⁰ and Machlup,¹¹ have emphatically denounced the blurring of the distinction between freedom and power. A number of writers (perhaps Knight is the most notable)¹² while recognizing that freedom is not the same as power, have somehow offered formulations of the concept of freedom that turn out to substantially identify it with power after all. Our earlier discussion can be helpful in clarifying the issues. Let us consider what has changed when a particular option, hitherto available to a decision maker, is somehow removed from the list of possibilities. In particular, let us ask what this change may possibly have done to the freedom of choice of that decision maker.

Now, from a Robbinsian point of view—that is, seeing the decision maker as having *already*, before the act of choice, become fully aware of the options available to him, and having *already* determined his ranking of conceivable outcomes—it should be apparent that the removal of an option that had hitherto been available may mean one of two things. If the option in question was one the Robbinsian decision maker would *not* have adopted, then its removal has no effect whatsoever. Since, even before his moment of decision, the decision maker had already adopted a well-defined ends-means framework, courses of action dominated by the optimal solution are simply irrelevant; they have been inexorably declared irrelevant by the structure of the ends-means framework taken as a datum. On the other hand, should the option that has been removed be the optimal one, then of course its removal affects our decision maker in a very significant way. But it is important for us not to misinterpret in what this effect consists. What has occurred is that a course of action the decision maker wished to adopt has been denied him. He may well be bitterly disappointed at having an anticipated desirable experience pulled out of his reach. If this option was removed by human design, he may well be outraged by its loss. He may denounce the loss as a violation of a commitment made to him, or as a violation of a right he possessed, or as sheer robbery, *but he will not be able to describe it as having affected*

his freedom to choose. To be sure, his maximizing decision must now be recalculated from among those other courses of action he had hitherto rejected as suboptimal. The second-best solution now steps up into first place. But this does not constitute a restriction on freedom of choice. If there is a line of standby passengers, ranged in order of priority, hoping to get onto a particular flight, and only one seat is available, the person at the head of the line will get on the plane. If, just before he is permitted to enter the aircraft this individual is suddenly removed from the line, for whatever reason, the passenger second in line now steps up to the head of the line. The relative positions of the individuals in line has *already* marked out their priority ranking, and no selection needs to be made of who is to be admitted. The removal of the first passenger does not, therefore, create any new need to choose. It would not be correct to say that the removal of the first passenger has restricted freedom of choice with respect to who is permitted on the plane, because the line of hopeful passengers is now shorter. So, for Robbinsian decision making, the removal of a preferred option does not interfere with the decision maker's freedom of choice. In fact, the Robbinsian decision maker never does have to choose, in the true sense of the word. If, nonetheless, the removal of a preferred option does, in some crude use of language, come to be described as somehow cramping the freedom of choice of the decision maker, this can be understood only as consisting in the restriction imposed on the decision maker's ability to achieve definite goals. *Freedom has, in the Robbinsian framework, come inevitably to be merged with the concept of power to achieve goals.*

On the other hand, from the perspective of the acting person as an entrepreneur for whom the task of deciding embraces the very identification and ranking of ends and recognition of means, the matter seems altogether different. From this perspective, the removal of an option does indeed interfere with the decision maker's freedom of choice. For the human agent, seen as entrepreneur, *each* available course of action is, quite possibly, the optimal one. In fact, it is the essence of choice, in this context, *to choose* the optimal course of action, not in the sense of figuring out the solution to a maximization problem where the solution is already determined by the rankings assumed in the data, but in the sense of choosing the ranking itself. So the removal of an option does indeed affect freedom of choice. This is so not because its removal denies the decision maker something he wishes to attain; before the act of choice it

has not yet been determined which option he does in fact wish to attain. The removal of an option restrictively alters the range from which choice may be made. Even if the lost option would, in some not well-defined sense, have been a *rejected* course of action, its removal nonetheless still constitutes an interference with freedom of choice. At the moment of choice, this option *was a possible option*; it had not yet been rejected either explicitly through choice, or implicitly through the given structure of some already-adopted ends-means framework.

FREEDOM AND THE RANGE OF ALTERNATIVES

Is freedom increased by the addition of options that the decision maker will not adopt because he prefers one of the existing options? Is freedom restricted by the removal of options the decision maker would have rejected anyway? The preceding discussion can throw light on these questions that have been raised from time to time in the literature on freedom.

Locke maintained that even if a prisoner does not wish to leave his cell, he is nonetheless not a free man because the option of leaving his cell is not available to him. If the action voluntarily taken by a man is the only one available to him, “he is not free, though perhaps the action is voluntary.”¹³ Knight, on the other hand, argued that a fence along the edge of a ravine does not restrict the freedom of hikers, since they would not wish to fall over the edge anyway.¹⁴ As we have seen, the issue appears to revolve around the distinction between Robbinsian maximizing decisions and Misesian entrepreneurial choice.

If Locke’s prisoner, who loves his cell beyond any other place he can imagine, is to be seen as not free, this can only mean that one considers what the prisoner would be at liberty to do *were he to change his mind*. Clearly, this is relevant only if one admits the possibility of escaping from a given Robbinsian framework in which one has one’s mind already fully made up except for the chore of calculation. Knight’s fence may be declared innocent of interfering with the freedom of hikers only because one views them as having already adopted a framework of ends that, however tentative and fluid, is yet seen as definitely ranking suicide below all other conceivable options.

Machlup, who insists strongly on maintaining the sharp distinction between freedom and power, has drawn attention to the possibility that an increment of freedom may itself inspire the acquisition of power. “In

other words, certain freedoms may be of great importance for individuals and for society when no knowledge, no opportunity, and no power exist as yet to make use of presumably 'empty' freedoms. Their importance lies in the aspirations and ambitions which they arouse and which may lead to the search for the knowledge, opportunity, and power that are required to exercise the previously unused freedoms."¹⁵ Machlup has in mind a potential option that the decision maker lacks the physical power to attain. So long as he is barred by human restrictions from exercising this option, even if he *had* the physical power to do so, he will not expend the effort or search for the knowledge required to win this physical power. The acquisition of freedom from human restrictions may inspire him to discover ways of overcoming the physical obstacles to exercising the option. This very interesting possibility provides an excellent example to illustrate my position.

On the face of it Machlup's case appears difficult to understand. There is, we take it, some course of action whose implementation requires certain inputs. These inputs may be physical, or they may take the form of knowledge or services of various kinds. Now, either the individual under consideration already has these inputs—or other inputs able to produce these inputs—available to him, or he does not. If he already had them available to him, then it is not clear how the acquisition of the freedom to pursue this particular course of action can be credited with inspiring the power to do so; this power was already possessed. On the other hand, if the inputs were not available until the moment when this freedom was acquired, then it is not clear how, merely through acquiring this freedom, our individual suddenly becomes endowed with inputs previously unavailable to him. Machlup uses the example of a bicycle rider able to pedal at no more than 20 mph who did not find it worthwhile to work harder to earn money to buy a car because of a law limiting all vehicles to a maximum of 25 mph. The abolition of the legal speed limit increases his desire for a car, and he works harder to earn the money to buy it. Thus the freedom to drive at 60 mph, while ineffective to one not owning a car, is effective, nonetheless, in arousing the ambition to achieve the power to exercise the previously unused freedom (to acquire a car).

But surely this example is one in which the *power* to acquire a car (and to drive at 60 mph) *was* possessed all the time. This individual always had open to him, physically, the option of working harder to earn money to buy the car; he did not exercise this option because of the existence of

the speed limit which made this option not worthwhile. Machlup uses this example to show that actual capacity may be “created only after the freedom is established.” It is true that the individual, until the lifting of the speed limit, had no car and thus lacked the “actual capacity” to drive at 60 mph immediately, but he certainly did not lack the actual capacity to acquire the car and thus, indirectly, to drive at 60 mph. It is true that the freedom acquired to drive at 60 mph converted the potential of owning a car into a reality. It is not, however, clear how this constitutes an expansion of power in any sense relevant to economic discussion.

What Machlup has noticed for us, it appears, is something highly significant, though his example, or his exposition of it, does not seem sufficiently clear. The point concerns the acquisition of freedom to pursue a particular course of action for which the individual indeed possessed the necessary inputs, but the very possibility of which has escaped his entrepreneurial attention. So long as the law limits all vehicles to 25 mph, a worker *may not see the acquisition of a car as being within his reach at all*. Opportunities one is unable to take advantage of tend not to be noticed at all. It is only when the speed limit has been lifted that an already feasible course of action comes into the decision maker’s field of vision. The acquisition of freedom may indeed be credited with inspiring the determination to achieve a specific goal. As Machlup has noticed, freedom is fertile in creating actual (perceived) opportunities. A potential opportunity not yet noticed, may, through the addition of an increment of freedom, become an actual one. The process by which potential opportunities can, in this sense, be converted into actual ones is certainly of utmost importance for economists.

What I wish to point out here is that this *fertility of freedom*, to which Machlup has so valuably drawn our attention, can be discussed only within the context of what we have called the broader, entrepreneurial concept of freedom. An increment of freedom, in this sense, may be responsible for a decision maker’s identifying a perceived ends-means framework otherwise hidden from him. This fertility of freedom is completely excluded from the purview of the narrower, “Robbinsian” conception of freedom. Within the Robbinsian given ends-means framework, freedom means the freedom to pursue perceived, chosen courses of action. The essence of this concept of freedom is that all opportunities have already been given to the decision maker in a manner that ensures his awareness of them. Under such conditions, an increment of freedom