

Kelly's indirect influence through both his writing and personal relationships was far more important and profound. Kelly changed people's minds about policy, and many of those he influenced paved the way for reductions in tariffs in the 1980s and early 1990s. By 1993, the federal Liberal-National Party coalition was committed to abolishing tariff protection, although it did not deliver when in government from 1996 to 2007.

Kelly showed that politicians do not need to attain high office to be influential. Indeed, his short time as minister for the navy was as much a hindrance as a help to his cause. Current and aspiring politicians more interested in doing good than doing well can find in Kelly a great role model.

Kelly's work remains unfinished. However, the fact that the government now feels obliged to refer to subsidies to industry as 'co-investments' shows how much opinion has shifted against protectionism, even where policy practice has not.

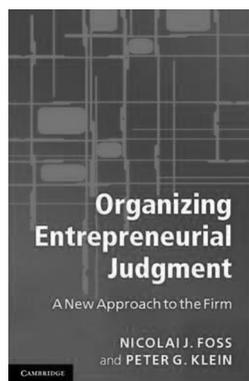
We can be grateful to Bob Day's Bert Kelly Research Centre and Connor Court for making possible the publication of this biography. Kelly's life should serve as an inspiration to those carrying on his important work on behalf of an Australian economy free from trade barriers.

**Reviewed by  
Stephen Kirchner**



***Organizing Entrepreneurial Judgment: A New Approach to the Firm*  
By Nicolai J. Foss and Peter G. Klein**

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Natural abundance in a nation blessed, let's say, with gold-rich rocks, huge deposits of coal and iron ore, wonderful soil, waters brimming

with fish, lots of arable land and pastures, and readily available labour does not, of itself and automatically, make a people wealthy. Natural riches and human capacity are simply potential sources of real and extended wealth. They will not take human life beyond a modest subsistence until those resources are marshalled and worked upon, coordinated and transformed by human ingenuity and labour into the large-scale production of useful and exchangeable goods and services and improved forms of production. All over the world, hundreds of millions of people live in nations that possess great natural resources, yet its citizens live in poverty. This is so because they do not have the kinds of civic cultures and liberties, political and economic institutions, and supportive laws and regulations that propel human ingenuity into creating capitalist enterprises and the great engines they may become in producing widespread wealth.

'Human ingenuity' crucially includes capitalist entrepreneurship, the subject of this book by Nicolai J. Foss and Peter G. Klein. Within modern industrial society, entrepreneurship is the child of those cultures and institutional arrangements such as free markets under the rule of law, modest taxation, contractual certainty, access to financial capital, secure private property rights, and predictable public policy that allow and encourage budding entrepreneurs to exercise their creative and transformative energies.

Foss and Klein, writing from an 'Austrian economics' perspective, do not dwell, at this point, upon the broad institutional environment that supports entrepreneurship—and which comes later. They hasten to focus on what the entrepreneur brings to economic production and the skills that must be exercised in creating a profit-making enterprise—the firm or organisation. Their contribution, and it is a major and well-argued one, is full of historical and theoretical detail that drives their theme of the entrepreneur as not just an 'ideas' man or woman, but one who creates, when successful, an organisation that finds and orders the capital and processes appropriate to the tasks of producing goods and services at a profit.

For the professional economist, therefore, this book is a well-organised dissertation on the essential intertwining of entrepreneurship with the firm and the questions, both practical and theoretical, that this raises. For those interested in organisational management, it has much to offer. For the interested

general reader, it is an accessible insight into a subject central to economic production, and relatively light on jargon and technicalities.

The authors' view goes beyond the traditional image of the entrepreneur as essentially one who innovates or brings forth something novel or imaginative within business, or something startlingly 'fresh,' whether of product or method of producing, and sometimes both. This is a common view of those writing about organisational management and tends to focus attention not so much on what the entrepreneur does but on what *kind* of person or perspicacity is the key element in entrepreneurship.

Among economists, speculation on the essential contribution of the entrepreneur ranges from Ludwig von Mises' 'the driving force of the market' to Frank H. Knight's 'judgment.' For Joseph Schumpeter, the entrepreneur is one who introduces 'new combinations—new products, production methods, markets, sources of supply, or industrial combinations ...' In the hands of Israel Kirzner, in a sustained inquiry stretching over the last 40 years, the entrepreneur is seen as a key figure in market competition, and an exemplar of Friedrich Hayek's 'discovery process' within markets. For Kirzner, the entrepreneur is one who sees and seizes an 'opportunity' for undiscovered profit. Foss and Klein observe that Kirzner's concept of entrepreneurship has become highly influential in management literature.

Kirzner's notion of alertness to undiscovered profit opportunities is a dominant strand of the contemporary entrepreneurship literature, along with Schumpeter's notion of entrepreneurship as innovation and Knight's idea of entrepreneurship as judgment. (p. 43)

This, they argue, has prompted research programs concentrating on the 'cognitive, motivational and environmental antecedents' of entrepreneurship to understand why some individuals come to be 'alert' to opportunities and how such alertness may be fostered in organisations or in society.

### **The entrepreneur and the firm**

The authors have a fundamental criticism of Kirzner's widely accepted position (and that of Schumpeter)—the explicit disassociation of the firm and the entrepreneur.

Kirzner's entrepreneurs do not own capital, they need only be alert to profit opportunities. Because they own no assets, they bear no uncertainty. For this reason, the link between Kirznerian entrepreneurship and the theory of the firm is weak.

For them, ignoring the significance of the entrepreneur as an owner and organiser of the capital of a firm is a serious deficiency, since that responsibility of the role demands the critical personal quality of judgment if the enterprise is to succeed in making a profit. It is the necessity for exercising judgment in the deployment of owned assets under conditions of uncertainty that links entrepreneurship-as-discovery with the theory of the firm. They follow Robert H. Coase's argument (1937) that the rationality of establishing a firm or formal organisation derives from the reduced transaction costs that it achieves. This avoids the costs that would otherwise be involved in 'executing separate contracts for each of the manifold market transactions necessary to complete a number of complex production operations'—operations that could be completed and coordinated within the firm at less cost. Thus, for Foss and Klein:

The firm emerges as the entrepreneur's means of maximizing the returns from his judgment. This overall idea can explain not only the emergence of firms, but also their boundaries and internal organization.

They then move on to examine aspects of this ordering, or management process, that the entrepreneur must undertake. For example, they ask and attempt answers to the question: 'What about the firm's upper bound?' Next, they relate this question of size and the costs of internal organisation to Hayek's 'knowledge problem' and the impossibility of rational economic planning under socialism. From there, the discussion delves deeply into the book's central theme of 'organizing entrepreneurial judgment' within the context of the firm.

The concluding chapters of the book accordingly contain a rich and penetrating analysis of entrepreneurial-organisational issues, primarily from the perspective of an 'Austrian' economics that foregrounds 'dispersed knowledge.' A variety of topical

questions are explored, such as ownership and the rewarding of employees, authority and hierarchy, and their implications for the entrepreneurial division of labour and organisational design. There is much of interest here not only for economists but also for managerial theorists and practitioners, and sociologists.

### The entrepreneur's properly rights and public policy

The concluding discussion, Chapter 9, pulls the threads together and summarises the implications of what has been said for entrepreneurial theory and practice. Importantly, this includes several pages assessing the implications of public policy for entrepreneurship.

An issue of crucial importance for the entrepreneur, commerce in general, and national economies in predominantly capitalist societies is the clear definition and security of property rights under law.

As Foss and Klein put it, 'ownership of resources influences the incentives to make specific investments' and 'and ownership of a resource is defined in terms of having the residual control rights over a resource, especially the right to exclude others from a resource.' Also: 'The allocation of ownership rights thereby shapes the bargaining positions of contracting parties.'

This being so, it follows that distribution or dissemination of rights of control of resources in an enterprise may critically affect the nature of the incentives at work within an enterprise, including how, and to what end, investments may be made and resources used or appropriated. In that sense, to control a resource is, effectively, to own it.

It is the honest entrepreneur's intention, within the law, to organise and use resources for the creation of value in the form of consumer goods or services, and in doing so, to make an acceptable profit. To the extent that an entrepreneur (qua enterprise) loses control over a resource, the creation of value may be compromised because, as Foss and Klein put it, 'judgment and asset ownership are complementary.'

In creating an enterprise, the entrepreneur has to enter into any necessary bargaining relationships with the owners of the resources, physical and human. The conditions under which that bargaining takes place are accordingly of considerable importance.

If, for example, the entrepreneur needs a government licence to operate legally, and if that licence costs more than the official fee because it cannot be acquired without paying a bribe to the bureaucrat who issues it, part of the enterprise's resources are effectively wasted and the creation of value reduced. If intimidation of this kind is not stopped, or if intimidation of other kinds is *protected* by the law, entrepreneurial creativity is threatened.

So, bargaining under conditions of justice and fairness between the owners of resources and those who want to acquire or control them is an essential condition of legitimate enterprise.

This says nothing that has not been said before about capitalist enterprise and the circumstances under which it flourishes. But it is often forgotten and often ignored by those who should know better. Regrettably, that is the case in Australia today. One has only to note the proliferation of stifling commercial and industrial regulation in this country, the expropriation via taxation, the reintroduction of the labour intimidation permitted by industrial relations law and the continuation, and the sometimes extended feather-budding and government subsidisation of rent-seeking industries. It has become significantly more difficult for entrepreneurs to work their productive magic.

Australia is a country blessed with considerable natural and human resources whose productive organisation under human ingenuity and entrepreneurship have so far led it to an abundant life for the great majority of its people. That could continue at a greatly increased pace and spread if only the existing and potential entrepreneurship waiting to be released could be set free. This book is a significant contribution to better understanding the nature of entrepreneurship and the conditions, especially the organisational processes and exercise of entrepreneurial judgment, under which it might thrive if given the chance by supportive public policy.

Reviewed by  
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