Entrepreneurship, Uncertainty, and Judgment: A Model for Understanding the Uncertainty Borne by Entrepreneurs

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JEL Classification: D8, D46, L26

Abstract: For entrepreneurs and business firms, the problem of uncertainty is one of accurately imagining the future state(s) of the market. Specifically, uncertainty refers to what price a good offered for sale in the market will command, and thus whether the price paid will cover costs of production. This price, or market value in money terms, is fundamentally based on consumers’ subjective valuation of the want satisfaction that the good expectedly offers, and consists of, on the one hand, the absolute value of that want satisfaction, and, on the other, its value relative other means to satisfy the same want, the value of satisfying other, alternative, wants, and the temporal value outlook of the consumer (expectations about changes and time preference). Using this four-layer model of absolute and relative value of a good, derived from Austrian value theory as developed by Menger and Mises, as framework, I find a basis for analyzing the distinctiveness of the uncertainty in specific market situations that entrepreneurs and managers face. Specifically, the model suggests there is a qualitative difference, in terms of market value uncertainty, between innovative promoter-entrepreneurs and non-innovative or imitative such. The model thus suggests a means for distinguishing the ‘Schumpeterian’ disruptive entrepreneur from other economic actors, including ‘Kirznerian’ arbitrageurs, in terms of the layered structure of value uncertainty.

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THE PERCEIVED PHANTOM OPPORTUNITY: BRIDGING THE GAP BETWEEN PERCEPTION AND ACTUALIZATION

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JEL Classification: B53, D8, E14, M13

Abstract: An analysis of the role of the entrepreneur in Austrian economics literature reveals an evolution around the concepts and processes of entrepreneurial discovery and opportunity exploitation. This paper addresses the gap between the entrepreneur’s initial perception of opportunity and the final institutionalization of that opportunity. The new construct of “phantom opportunity” helps shed light on this phenomenon. Austrian theory maintains the concepts of perception, perceived opportunity and profit as important to the entrepreneur as they seek to secure vital resources such as start-up funding. Nascent entrepreneurs who pitch to investors may be required to mentally simulate, propose counterfactuals, and creatively establish phantom opportunities. We define the phantom opportunity as “an opportunity that has been perceived to be legitimate by an entrepreneur and a future resource provider dyad but has not yet been actualized.” Whether discovered or created, before an opportunity can achieve legitimacy and become tangible, it must be analyzed and conceptualized (Alvarez and Barney, 2007; Zimmerman and Zeitz, 2002). In order to accomplish this, entrepreneurs employ cognitive heuristics to mentally conceptualize derivatives of what the opportunity could become, employing mental simulations and counterfactual thinking (Gaglio, 2004). Regardless of whether it is discovered or created, the perceived opportunity is illusory until it is institutionalized or materializes in the market (Tost, 2011; Alvarez and Barney, 2007). This paper extends the understanding of perception, discovery and creation of opportunities as realized by the entrepreneur and a resource provider.

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Should Libertarians Reject the Title Transfer Theory of Contracts?

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JEL Classification: D86, K12

Abstract: According to the title transfer theory of contracts, as expounded by William Evers and Murray Rothbard, the source of contractual obligation is not a mere promise, not even one accompanied by a consideration or reasonable expectations on the part of the promisee, but a transfer of a property title so that if the contract is not fulfilled, the defaulting party commits an implicit theft. In the present paper we argue that on the grounds of the title transfer theory of contracts, common types of contracts (such as a debt contract) would not be legally binding because they presuppose that a promise, not a property title transfer, is the source of contractual obligation. In turn, the title transfer theory of contracts does not recognize promises as generating any legal rights or duties. Moreover, because other common types of contracts (such as labor contracts or agreements involving delivery of future goods) are ultimately based on promises and not on property title transfers, they would also be null under the libertarian law if it embraced the title transfer theory. The economic consequences of such a limitation of the freedom of contracts would be disruptive for the division of labor, market exchanges and wealth creation. Hence, we argue that libertarians should reject the title transfer theory of contracts.

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**FROM INTUITIONS TO ANARCHISM?**

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**JEL CLASSIFICATION:** H11

**Abstract:** When libertarian political philosophy attracted wide public notice in the 1970s, a common view was that the distinctive individual rights advocated in libertarian theory required grounding in a theory of ethics. Recently, this view has come under challenge. It has been argued that resort to such grounding in ethical theory is unneeded. An appeal to common sense intuitions suffices to justify libertarianism. First, a brief account of libertarianism will be presented. Then, some examples of the older, pro-grounding position will be discussed. Then, the principal defense of the newer view, Michael Huemer’s *The Problem of Political Authority*, will be examined. This discussion constitutes the substance of the present paper. The principal contention of this paper will be that the argument to libertarianism from intuitions does not succeed. In conclusion, it will be suggested that a return to the earlier, grounding view is indicated for philosophers who wish to defend libertarianism.

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Higher Education Evolution

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JEL Classification: I22, I23, I28, N31, N32

Abstract: The left-wing, Democratic Party ascendency in universities has been supported by institutional forces that overlap with those that formed the Federal Reserve Bank; moreover, the rationales for the two institutions have been parallel. Higher education was among the earliest of the Progressive institutions, for its evolution has roots in the Civil War-era Land Grant College Act of 1862. There have been three broad political phases of higher education’s political evolution. In each, the bigger-government party was associated with its support. The three periods were the Federalist/Whig (1787–1860), the Republican (1860–1930), and the New Deal (1930–present). Two foundations, the Carnegie Foundation for the Advancement of Teaching and the General Education Board, established left-wing dominance by creating financial incentives for secularization and rationalization of colleges. The New Deal reinforced Democratic Party dominance by subsidizing universities in exchange for service as ideological mediating institutions. Given these beginnings, groupthink naturally evolved after World War II. A preliminary data set of 12,378 professors in 116 colleges in 31 states shows that for males the ratio of Democratic to Republican political contributions is $16.32 to $1 while for females it is $53.91 to $1. For states that voted for Bush in 2000, the Democratic to Republican contribution ratio is $99.36 to $1 while for states that voted for Gore in 2000 it is $18.64 to $1. The reason for the reverse relationship is the scarcity of elite colleges in Republican states coupled with the income elasticity of political contributions.

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THE LEGACY OF HENRY LOUIS MENCKEN AND ROSE WILDER LANE: DEMOCRACY AND REPRESENTATIVE GOVERNMENT

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JEL Classification: B31

Abstract: Libertarianism tries to face the difficulties and inconsistencies of democracy. The paper aims to provide a better understanding of the relationship between libertarianism and democracy going back to the early seeds of libertarianism and highlighting the critical contributions by some of the major Old Right protagonists: Henry Louis Mencken and Rose Wilder Lane. Mencken was very polemical against various movements for cultural and moral elevation of the people, such as Prohibition and the battle for public education. He deprecated the low cultural level caused by mass democracy and advocated an aristocracy of talents. *Notes on Democracy*, published in 1926, contains one of the most scathing critiques of the idea that the great masses of the people have an inalienable right to govern themselves and that they are competent to do it.

Rose Wilder Lane became well known just before World War II for her staunch defense of liberty. She visited the Soviet Union four years after the Bolshevik revolution. When she came back to the U.S., she stated that at that point of her life she totally believed in liberty. She didn’t simply reject Marxism, she got down to first principles to challenge the central premises of statism. Her criticism of democracy is deeply related to the rejection of statism and central planning. Anticipating the contemporary libertarian critique by Hoppe and Leoni, Lane states very radically that in a democracy no one really owns property, because in a democracy property is at the mercy of the majority’s whim.

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The Economic Rationality of Brazilian Systemic Corruption: Why “Operation Car Wash” Makes a Case Study for Austrian Public Choice Economics

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JEL Classification: B53, K42

Abstract: Since 2014, a Brazilian Federal Police investigation named Operation Car Wash has uncovered a complex corruption network in Brazil. This paper aims to contribute to a richer understanding of corruption at the interface of the government and the market. We argue that the substantial economic literature on government corruption stills needs a theoretical framework to explain systemic corruption by its causal mechanisms. More specifically, we will embark on a case study of Operation Car Wash informed by Austrian public choice theoretical categories. This is because our main goal is to highlight the explanatory gains of integration between public choice theory and the Austrian school of economics. To pursue our research task, we will provide a content analysis of already concluded “Lava Jato” lawsuits that might play the role of an indirect empirical test of the explanatory value of an Austrian public choice approach to political entrepreneurship, rent-seeking and corruption. Putting it more clearly, our case study provides some robust textual evidence of the relevance of the following analytical categories: politicians and bureaucrats as government corruption entrepreneurs (sellers of economic privileges); interest groups profiting from political connections; and politicians willing to achieve and maintain their power by all means: interventionism, lack of transparency, discretionary power, the fostering of crony relationships, and the rewarding of corrupt behavior. Finally, the paper discusses some implications of an interpretation of the biggest Brazilian corruption scandal, based on insights from Austrian public theory, and draws some lessons for Brazilian anticorruption policies and institutional reforms.

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AUSTRIAN ECONOMICS AND GERMAN BUSINESS ECONOMICS ON CAPITAL ACCOUNTING

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JEL Classification: B25, M21, M41

Abstract: According to Mises (1949 [1998], 231), “[m]onetary calculation reaches its full perfection in capital accounting. It establishes the money prices of the available means and confronts this total with the changes brought about by action and by the operation of other factors. This confrontation shows what changes occurred in the state of the acting man’s affairs, and the magnitude of those changes; it makes success and failure, profit and loss ascertainable.” Early generations of Austrians have sometimes been accused of having lacked a thorough engagement in capital accounting despite its considerable importance, and only few works in the Austrian tradition have done so subsequently. However, these accusations are unjustified. There was no need for Mises, his predecessors, or disciples to formulate capital accounting more thoroughly, as this was already being done simultaneously by Austrian economics’ “sister science” (Schmidt 1933, 106), namely German business economics, based on Austrian insights. This paper seeks to introduce the contemporary Austrian community to the dynamic accounting theory brought about by German business economists. We demonstrate how such accounting theory operationalizes capital accounting in detail and how it solves some fundamental issues of capital accounting that have remained unsolved by Austrians. Moreover, this paper reveals some fundamental misconceptions inherent in Austrian works on capital accounting and offers solutions drawn from the well-developed dynamic accounting theory.

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Bitcoin or 2000 Others? Who Will Succeed? An Institutional Approach to Cryptocurrency with a Focus on Austrian Economics

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JEL Classification: E42

Abstract: How can cryptocurrency gain legitimacy in the eyes of users? I suggest that the liability of newness of this relatively new type of currency creates an institutional problem for many firms that may be insurmountable. I propose that cryptocurrency firms, through evasive entrepreneurial actions reflected by rhetorical strategies, can acquire legitimacy in the market that will ultimately reduce institutional uncertainty. My main research question is: “How can cryptocurrency become a generally-accepted and commonly-used medium of exchange?” I argue that cryptocurrency can and will become a medium of exchange only if/when it overcomes its liability of newness and becomes legitimate (Aldrich and Fiol, 1994). This study draws from Bylund and McCaffrey (2017) which utilizes Williamson’s (1998, 2000) hierarchical model of institutional systems as a framework to theorize about the relationship between institutional uncertainty and entrepreneurial action. I propose that legitimacy acquisition at the market level via evasive action will attenuate uncertainty in the formal institutional environment; which will beget additional legitimacy for cryptocurrencies, and thus higher performance to those firms, on average. Though there will clearly be limited winning firms at the market level; this interplay increases the likelihood that digital currency(ies) (as a medium of exchange) at the institutional—and subsequently governance—levels will become universally accepted. By investigating cryptocurrency as an innovation and a process within the institutional context (rather than focusing solely on its features, function, and technical aspects), this study (1) extends our understanding of the evolution of an innovation and its diffusion under institutional uncertainty, (2) elucidates how cryptocurrency can become a medium of exchange, and (3) contributes to the development of institutional theory.

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TURNING THE WORD UPSIDE DOWN: HOW CANTILLON CHANGED THE MEANING OF ENTREPRENEURSHIP

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JEL Classification: B31

Abstract: The word “entrepreneur” originally meant someone who is active, risky, and even violent. In the sixteenth and seventeenth centuries it was used to denote a contractor who built large structures and fortifications for the government or provided supplies for the military for a fixed fee, but uncertain costs. In contrast, Cantillon (1755) defined the entrepreneur as someone buying goods or resources to be sold in the future for uncertain prices. His definition has since become part of the common usage of the term. It has been previously shown that this definition is critical for Cantillon to construct theories and models of the market economy. Here the evidence shows that his changing of the definition can be based on his extensive career experience in both the public and private sectors.

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Financial Asset Valuations: The Total Demand Approach

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JEL Classification: D46, E44, E52, E58, G12

Abstract: This paper provides an explanation of how monetary policy impacts the prices of financial assets relative to the prices of non-financial assets. In the standard view, monetary policy has no such effect. It may influence financial-asset prices in various ways, but it does not all by itself entail any tendency for financial-asset prices to rise faster than the prices of non-financial assets. We argue that the neglected “total demand approach” sheds a different light on this issue. Total-demand theory shows that monetary policy may have such a consequence. It also brings the additional advantage of simplifying the theory of monetary policy, in that it allows us to conceptualize unconventional monetary policy and changes in the quality of money within a single theoretical framework.

The total demand for durable goods (such as money and financial assets) includes the demand-via-exchange from persons who like to acquire more units as well as the reservation demand from the current owners of the existing units. In light of this approach, an increase of the reservation demand along with a simultaneous increase in the demand-via-exchange would lead to increase in prices, while the volume of the good exchanged would not necessarily change. This increase would come about through changes in individual subjective valuations of financial assets. The total-demand approach allows to conceptualize the impact of parameters of monetary policy that fall outside of the flow explanation.

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