ARE OWNERSHIP RENT AND PURE PROFIT SEPARATE RETURNS TO THE ENTREPRENEUR?

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ABSTRACT: Murray Rothbard developed the concept of decision-making rent as a return to a kind of unhirable labor performed by the entrepreneur in his role as owner and ultimate decision-maker of the firm. Rothbard conceived owner’s rent as separate from profit and loss and the decision-making function as concerned with productive organization and technique, which is distinct from the function of forecasting uncertain future market conditions. Vlad Topan (2012) disputes Rothbard’s position and contends that ownership rent does not exist because decision-making ability is meaningless in the absence of uncertainty. In this paper, I argue that Topan’s critique rests on fundamental misconceptions about the nature of entrepreneurship in Austrian economics.

KEYWORDS: decision-making ability, decision-making rents, ownership function, entrepreneurship, firm

JEL CLASSIFICATION: D20, D21, L20, L21, L26

Vlad Topan’s “Note on Rothbardian Decision-Making Rents” (2012) is a welcome and thoughtful addition to a neglected topic in the Austrian theory of entrepreneurship: what Murray

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Rothbard (2009) has dubbed the “decision-making” or “ownership” function of the capitalist-entrepreneur. This productive function had been recognized and discussed by Carl Menger, Eugen von Böhm-Bawerk, and Ludwig von Mises before Rothbard. Unfortunately, after the publication of *Man, Economy, and State* in 1962, the concept dropped out of the Austrian literature until the present author traced out the development of this concept in Austrian writings in his article, “The Entrepreneur: Real and Imagined” (Salerno, 2008).

The main thrust of Topan’s note is to deny Rothbard’s claim that there exists a specific form of income that is a return to the ultimate decision-making function of capitalist-entrepreneurs as property owners and is separate and distinct from their interest return as capital-investors and pure profit (or loss) return as entrepreneurial uncertainty bearers. In particular, Topan disputes Rothbard’s claim that the ownership function and its correlative income of decision-making rent has any place in the equilibrium conditions of the evenly rotating economy (ERE).

Despite the great degree of care and ingenuity that Topan puts into constructing his case, I believe that it rests on two fundamental errors.

First, Topan conflates Mises’s imaginary construct of the pure entrepreneur with what Mises (1998, p. 256) called the “entrepreneur-promoter” or simply “promoter.” The former, according to Mises (1998, pp. 253–254) is not a human actor but a single “definite function” that is embodied in “an imaginary figure” who is “propertyless” and whose only function is to bear risk. As such, for Mises the pure entrepreneur is a “methodological makeshift” designed to enable the economist to analytically isolate profit (and loss) from the interest earned on capital, both of which are inextricably bound together in the net income received by business owners and investors in the real world. In sharp contrast, Mises’s entrepreneur-promoter is a real actor who owns capital and puts it at risk by purchasing factors of production that he judges are undervalued relative to the prospective value of the future product they will yield. He is then obliged to efficiently combine these factors according to a technical plan in a time-consuming productive venture that he must oversee to completion. Indeed, Mises (pp. 254, 302) pointed out that it is not possible to think through the concept of a pure entrepreneur who owns no capital to
a logical conclusion and he explicitly warned against the “error” of confusing the pure entrepreneur with the entrepreneur “in a living and operating market economy.”

Topan (2012, pp. 76–77), however, ignores the distinction drawn by Mises between the two types of entrepreneur and, at the outset of his note, selects six quotations from Mises’s and Rothbard’s works which, because they are presented out of context, emphasize uncertainty-bearing while either completely ignoring or downplaying the role of ownership in the definition of the entrepreneur. In addition, at least four of these quotations refer specifically to the pure entrepreneur as Mises defined the term. Thus, for example, Mises (1998, p. 254) is quoted by Topan (p. 76) as follows: “The term entrepreneur as used by catallactic theory means: acting man exclusively seen from the aspect of the uncertainty inherent in every action.” But in the sentence immediately before the sentence quoted by Topan, Mises referred to this one-dimensional delineation of the function of the entrepreneur as being embodied in “an imaginary figure” that is a “methodological makeshift.” Moreover, in the very next paragraph following the one containing the quoted sentence, Mises (1998, p. 254) carefully demonstrated that this “imaginary construction of a pure entrepreneur” involves a logical contradiction, because he owns no property and, therefore, bears no risk.

1 Rothbard (1997, p. 249) recognized and adamantly rejected Mises’s concept of the pure entrepreneur, “which treat[s] the entrepreneur as an entirely separate entity, and not just as the forecasting aspect of the activities of the capitalist or laborer.” In his own treatise, Rothbard (2009, p. 510) avoided the construct when analyzing the nature and causes of profit as a return to the function of uncertainty-bearing and spoke of “the active entrepreneurial element in the real world [that] is due to the presence of uncertainty.” Rothbard (2011, p. 285) also noted that Israel Kirzner’s conception of the pure entrepreneur, who owns no capital and earns profits essentially by arbitraging price differences, finds “a certain amount of textual justification in Mises.”

2 As Mises (1998, p. 254) described him,

This [pure] entrepreneur does not own any capital. The capital required for his entrepreneurial activities is lent to him by the capitalists in the form of money loans.... Nevertheless, he remains propertyless for the amount of his assets is balanced by the amount of his liabilities. If he succeeds, the net profit is his, if he fails the loss must fall upon the capitalists, who have lent him the funds. Such an entrepreneur would, in fact be an employee of the capitalists who speculates on their account and takes a 100 per cent share in the net profits without being concerned about the losses.
The second quotation that Topan (76–77) draws from Mises (1998, p. 288) likewise refers to the pure entrepreneur and not the entrepreneur-promoter:

Like every acting man, the entrepreneur is always a speculator. He deals with uncertain conditions of the future. His success or failure depends on the correctness of his anticipation of uncertain events. If he fails in his understanding of things to come, he is doomed. The only source from which an entrepreneur’s profits stem is his ability to anticipate better than other people the future demand of consumers.

In the paragraph immediately preceding the one in which this passage appears, Mises (1998, p. 288) made it clear that he was here focusing exclusively on entrepreneurial profit and loss and how changes in the data bring about differences between the selling prices of products on the one hand and the sum of the prices of their factor inputs on the other. At the same time, he explicitly abstracted from how such changes “affect the sellers of labor and those of original nature-given factors of production and of the capitalists as money-lenders.” In other words, Mises was once again describing the pure function of entrepreneurship and not the integral, flesh-and-blood entrepreneur. Likewise, in two of the three passages that Topan (p. 77) quotes from Rothbard, Rothbard is clearly referring to the function of “entrepreneurship” or what he calls the “active entrepreneurial element” and not to the real property-owning capitalist-entrepreneur.

Topan’s first error leads to and is compounded by a second error. Jumbling up two different concepts of the entrepreneur at the start of his note and overemphasizing the single function of uncertainty-bearing predisposes Topan to ignore the distinct decision-making function that is inextricably bound up with the choice of the organization and technical combination of heterogeneous capital goods and labor factors, particularly management. Thus Topan (p. 79) argues:

Specifically, by introducing this additional distinct function of ownership and its subsequent (supplementary) form of remuneration/income, [Rothbard] ends up separating—something considered as a shortcoming in Kirzner—ownership from entrepreneurship. If this is not so, and if it is still the ownership function that also receives the profit/loss residuum, then we have a function with two incomes, a situation which violates the
"one function—one income" principle implied in the theory of distribution. Not to mention the emptying of the catallactic function of the entrepreneur, that would remain without an income share.

This assertion betrays Topan’s single-minded focus on the function of the disembodied pure entrepreneur to the exclusion of the real person of the capitalist-entrepreneur who embodies a number of conceptually distinct “catallactic functions.” For Rothbard and Mises the “one function—one income principle implied in the theory of distribution” is not violated by recognition of a decision-making rent that accrues to the entrepreneur qua property owner. Nor does Rothbard, a la Kirzner, “separate ownership from entrepreneurship” by identifying a separate property-owning function, as Topan (p. 79) claims. For all three functions of the capitalist-entrepreneur involve property. The capitalist function is advancing property in the form of wages and rents to the factors of production; the specifically entrepreneurial function is choosing the factors and allocating them to the production of property in definite forms that are anticipated to facilitate the achievement of ends chosen in light of forecasts of uncertain future market conditions; and the decision-making or ownership function involves supervising and organizing the various elements of productive property into a coherent structure of means, i.e. the firm, according to known techniques in order to achieve the chosen ends in the most efficient way possible.

Let us clarify the argument by analyzing the concrete data that must inform the analysis of the functions and corresponding incomes of the capitalist-entrepreneur. Indeed, by noting that some entrepreneurs earn profits while others suffer losses, Topan implicitly recognizes that it is a datum of everyday experience and of human history that people differ greatly in their capacities to anticipate and adjust their actions to changes in the world that affect their ends and means. Without inserting this subsidiary empirical postulate into the chain of praxeological reasoning, it would be impossible to account for the fact that some individuals are better entrepreneurs than others. Topan presumably would agree too

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3 As Mises (1998, p. 256) put it, economics must take into account “the promoter concept” because “it refers to a datum that is a general characteristic of human nature.... This is the fact that various individuals do not react to a change in conditions with the same quickness and in the same way.... There are in the
that praxeology must recognize the obvious fact that people have
different time preferences and therefore that they save and invest
different proportions of their incomes, accumulate greater or less
capital and receive unequal amounts of interest payments in the
real world and in the ERE. Topan would also surely grant that
economic theory must proceed on the empirical observation that
individuals vary in their skills, aptitudes, energy, motivation, and
productivity with respect to different types of labor and therefore
receive unequal wage rates in the real world and that such wage
inequalities would persist in the ERE.

Topan inexplicably seems to balk, however, at incorporating into
economic theory the mundane observation that business owners
differ markedly in their levels of technical knowledge, mental and
physical energy, clarity of memory, strength of purpose, supervisory
abilities, communications skills, aptitude for calculating
and interpreting financial data, etc. But surely these differences
affect the quality of the decisions capitalist-entrepreneurs make in
choosing and combining the concrete elements of their property
into an integrated structure of means in order to achieve their
ends, even if they all correctly forecast the value of these ends.
It is these qualities that cause people to differ in what Rothbard
(2009, p. 602) calls “for want of a better term... the decision-making
function or ownership function.” As this function is described in the
long passage Topan (2012, pp. 78–79) quotes from Rothbard, it is
clear that it has nothing to do with uncertainty per se. Rather it
deals with the ultimate technical, supervisory, and organizational
decisions that a capitalist-entrepreneur alone must make with
respect to the disposition of his productive property. It may help
to clarify this concept by describing it in the familiar context of
everyday life before addressing it in a business environment.

Suppose that someone is throwing a large party with a certain
theme and ambience that she anticipates would greatly please
her guests. She has formed a creative overall vision of the
prospective party—the future “product” or end—and is aware of
the concrete means necessary to realize her vision. But to prepare
for the party rationally and efficiently, the hostess must use her

market pacemakers and others who only imitate the procedures of their more
agile fellow citizens.”
existing knowledge, skills, and abilities in many diverse areas: menu selection; food preparation, including both the knowledge of recipes and the skills to execute them; selection of wines and other beverages that complement the meal; location, layout, and decoration of the “space” for the party; the timing of the food and beverage service; the music that best comports with the guests’ diverse tastes and with the theme of the party; the optimum number, selection, and seating arrangement of guests; the suggested dress; the crafting of attractive and informative party invitations and so on. The hostess also must attend to mundane matters like the sufficiency of bathroom facilities and toilet items, the adequacy of parking, and the proper sequestering of her children and pets.

In addition the hostess must actively supervise and make continual decisions relating to the coordination of the overall “flow” of the party as it proceeds, whether or not she decides to “outsource” one or more tasks to a party planner, caterers, a professional DJ, or bartender. These hired “managers” do not spontaneously coordinate their actions with one another and with the hostess’s overarching plan for the party. Moreover, she requires the interviewing skills and psychological insight necessary to accurately assess the technical competencies and work ethic of the personnel she is considering, as well as the leadership skills to motivate those she hires to engage with her in realizing her vision for the party.

To take a simple example, the party would turn out very differently depending on whether the hostess: suffered from a chronic illness and needed to take a nap midway through the party; were prone to overindulging in alcoholic beverages; were easily flustered by mishaps; or were healthy, vital, resilient and remained alert to every aspect of the party.

The point is that given the same resources and using the same standard of success, parties hosted by different people with varying knowledge, skills, aptitudes, capacities for mental focus and physical stamina would vary in success, even if they all could foresee exactly how the party would turn out as a result of their decisions. In other words, the variations in success of different hostesses need not be due exclusively to uncertainty-bearing, that is, anticipating and visualizing guests’ reactions to the theme and ambience of party; they may just as well be caused by disparities in their “ultimate decision-making ability” as owners of property.
We may even extend our fanciful party example to the ERE. Individuals of given but different decision-making abilities would host parties at regular intervals, purely as social events and not for monetary gain. Each would throw the same parties over and over again and the regularity of their purchases of party supplies would not upset market supply and demand conditions. They would all know the future perfectly but some would be renowned as great hosts or hostesses, others as relatively inferior ones. However, all those who host dinner parties would of course enjoy a surplus of satisfaction gained over satisfaction sacrificed in the foreclosure of other consumption opportunities to use the resources devoted to the party. As with spending on all consumption activities, the marginal utility of the end chosen would exceed that of the end foregone. Furthermore, these psychic “rents” to party hosts would persist in the ERE, although there would be no monetary or other objective expression of them and no method of comparing their magnitudes between different people.

What is true of owners of property in the service of extracatallactic ends is also true of business owners. Now, given that the differences in decision-making abilities among individuals in household and business activities are a datum of human

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4 There is nothing preventing economists from extending the ERE to an analysis of household activities because it is a mental construct of their own making. As Mises (1998, p. 248) pointed out, the ERE is consistent with many different assumptions so long as they do not disturb supply and demand conditions. Thus, he wrote, “Only such change as do not affect the configuration of price-determining factors may be considered in its [the ERE’s] frame.... We are free to assume that infants are born, grow old, and finally die, provided that total population figures and the number of people in every age group remain constant.” Elsewhere Mises (2003, p. 16) remarked:

A theory of action could conceivably be constructed on the assumption that men lacked the possibility of understanding one another by means of symbols, or on the assumption that men—immortal and eternally young—were indifferent in every respect to the passage of time and therefore did not consider it in their action. The axioms of the theory could conceivably be framed in such universal terms as to embrace these and all other possibilities.... We forgo these possibilities because conditions that do not correspond to those we encounter in our action interest us only in so far as thinking through their implications in imaginary constructions [e.g., the ERE] enables us to further our knowledge of action under given conditions. [Emphasis added.]
action—although these abilities admittedly may develop over time in the real world of change as a result of practice, experience, or formal instruction—we are free to assume that they exist and are frozen in the ERE. In business, the differential monetary rents to decision-making ability derive especially from owners’ organizational skills, technical knowledge and psychological insight although more mundane qualities such as health, physical energy, and aptitude for financial calculation may also affect such rents. Surely these personal qualities influence how successful the owner of the firm is in organizing and adapting the diverse yet complementary elements of his property to his entrepreneurial forecasts of future market conditions. Furthermore, the owner is unable to divest himself of the ultimate decision-making function even if he delegates most or all decisions about technology, organization and personnel to hired managers and technicians. This is not to deny, of course, that to the extent that the owner performs routine technical or straightforward managerial tasks that can be performed by hired labor, he is functioning as a pure laborer rather than as an owner making ultimate decisions about his property and is earning normal wages rather than special ownership rents.

In a neglected article published in 1935, M. M. Bober (1935) presented an enlightening discussion of the entrepreneur-owner’s crucial and undivestible function, while recognizing that it would continue under static conditions and earn a rent. Bober’s aim in the article was to connect the short-run and long-run analysis of the size of the firm and explain the U-shape of the long-run average cost curve by identifying the factor that remained fixed even in the long-run. This factor was the ultimate decision-maker or the “entrepreneur,” whom Bober (1935, pp. 81, 83) characterized as the “fixed factor at the apex of the whole structure” of the firm whose “personality and... power [becomes] diffused over a wide area” as the firm grows in size. Bober continued:

That some managerial operations can be delegated admits of no doubt; but there remains a solid substratum of activities that must emanate from one final source of authority and responsibility, and not only under dynamic conditions but under static conditions as well.... Officers and foremen die or resign, and new ones are to be selected; security issues mature, and the problem of financing reappears; short-term loans are recurrently made, and dealings with bankers are involved.... There is also the important problem of supervision, and the greater the differentiation
and delegation of powers the more vital is the problem. Furthermore, it is difficult to assume that the bearer of final responsibility can afford to play hide and seek with static conditions, disappearing from the scene or relaxing in the tasks while static conditions prevail, and assuming the helm only when the industry is undergoing alterations.

Bober (1935, p. 83) also saw that entrepreneurs of “infra-marginal” firms earn differential rents depending on their abilities and these rents exceed the rent that “will suffice to attract into the industry the marginal entrepreneur.”

Let me now turn to an analysis of Topan’s specific critique of Rothbard’s concept of decision-making rents. Citing several passages from Rothbard’s work, Topan (2012, p. 80) comments, “Rothbard seems to assimilate... the income of decision-making to a type of wage, and to view decision-making ability as some sort of labor.” But Topan (2012, pp. 80–81) notices a “tension” in Rothbard’s use of the concept. The tension arises, according to Topan, because on the one hand, decision-making is “logically antecedent” to labor but on the other it is a “special type of labor” requiring “some unique ability or talent.” But I suggest that this tension is merely semantic and not substantive. In suggesting a name for the function, Rothbard (2009, p. 610), as we saw, was not completely comfortable with the term “decision-making,” prefacing his suggestion with “for want of a better term,” and then offering “property-owning” as a possible alternative designation. Furthermore, in the passages that Topan (2012, pp. 82–83) cites as evidence to support his point, Rothbard repeatedly and clearly characterizes the decision-making function as “a certain kind of labor,” “an attribute of a labor factor” and the return to this factor as “wages of decision-making.” Viewed in context, there is no tension in Rothbard’s concept of the decision-making function. It is a unique kind of labor factor that is not separable from property ownership and therefore can never be hired. In contrast to hirable

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5 Unfortunately, Bober (1935, pp. 83–84) was under the influence of the perfect competition doctrine. And, although he did recognize the distinction between static and dynamic conditions, he mixed up profit and decision rent. He also treated the latter as a cost to the firm just like differential rents to hirable factors, despite the fact that he seemed to discern that the ultimate decision-making function was unhirable.

6 Topan (2012, p. 85) is therefore simply wrong in his claim that Rothbard rejects the idea that the decision-making function is “a special subcategory [of labor], special
labor, technically it has no market and, hence, no implicit wage, which is why Rothbard (2010, pp. 602–603) formally dubs its return a “rent” rather than a “wage.”

Topan raises an important point when he notes that, according to Rothbard’s analysis, the rent of any factor employed in production must be positive to induce its owner to participate in production. But what, asks Topan (2012, p. 84), is being rewarded by these positive rents when a firm’s owner qua entrepreneur suffers losses as a result of erroneous judgment of future market conditions? Does the decision per se generate a positive rent, even though it is an “uninspired decision” penalized by entrepreneurial losses? Topan answers in the negative and concludes that the Rothbardian concept of decision-making must imply “successful decision-making.”

As we saw above, however, for Rothbard, the owner’s “decision-making function” does not involve entrepreneurial decisions made under uncertainty. In fact, it is the application of a special type of labor, the oversight and stewardship of one’s productive property used by the owner or hired labor for a specific purpose. These decisions are not to be deemed successful or unsuccessful, but, like all “decisions” to expend labor of any kind, better or worse in terms of the physical quantity and quality of the product. In this sense, employing the same ingredients, recipe, cooking utensils, and kitchen appliances, my wife makes better “decisions” than I do in baking cookies. This outcome has nothing to do with uncertainty of the future but to existing differences between our baking skills. To extend the example to the market realm, a bakery owner deciding between employing me or my wife as a baker would need the technical expertise and insight to judge the present differential between our baking skills. If he hires my wife, his decision will generate higher owner’s rent than if he hires me.

enough so that it deserves a separate and dedicated catallactic function, together with a form of income.” The passage in Rothbard (2009, p. 565) that Topan cites to support his claim clearly refers to the illicit distinction between the workers and the managers of the firm, both of whom are “hired by its owners.” (Emphasis added).

Rothbard (2009, p. 559) draws the distinction between wage and rent as follows: “A wage is the term describing the payment for the unit service of a labor factor. A wage, therefore, is a special case of rent; it is labor’s ‘hire.’” (Emphases in the original.)
Topan’s attempt to subsume the decision-making function and owner’s rent under entrepreneurship and profit may be criticized from another angle. Suppose that due to gross technical ineptitude the owner of specific means of production is unable to bring his product to the market. For example, the bakery owner above hires a baker whose cakes fail to rise and cookies turn out too hard to chew and the output is disposed of as waste. Surely in this case the failure is purely technical and there would be no question of earning a profit or loss because there is no product supplied on the market and entrepreneurial forecasting does not enter into the matter.\(^8\)

Topan (2012, pp. 84–85) further argues that supposing that rents, like profits, can be positive or negative—as they would be if they were judged by the binary criterion of successful/unsuccessful—then the relationship between rents and profits would be unclear because both pertain to ownership. If decision-making alone pertains to ownership, Topan contends, then entrepreneurship as uncertainty bearing would be an empty concept. Alternatively, if the decision-making function is bound up with uncertainty-bearing, then, contrary to Rothbard’s view, nothing remains of the function in the ERE, from which uncertainty has been banished.

Topan’s arguments on these points betray a failure to fully grasp Rothbard’s rent theory. Rothbard (2009, pp. 559, 571–572, 694) maintains that only rents of factors actually used in production, whether marginal or supramarginal, must be positive. Submarginal factors like desert land, mines with the least accessible ore deposits, or potential laborers who suffer from severe mental or physical disabilities would earn zero rents in the ERE. Likewise, business owners who are inadequate as decision-making stewards of their productive property would incur such high production costs that their firm’s return in the ERE would fall short of the natural rate of interest. Such firms, of course, would not be in business in equilibrium. There would thus be submarginal decision-makers who are earning zero—never negative—rents in the ERE precisely because they are not operating firms.\(^9\)

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\(^8\) I am indebted to David Gordon for this point.

\(^9\) As Rothbard (2010, p. 603) points out, even marginal firms operating in the ERE earn positive decision rents:
For Rothbard, then, decision-making rents in the ERE, like the rents of land and hirable labor factors, are completely independent of entrepreneurial profits under dynamic conditions. While Rothbard does not explicitly discuss the variation of pure profit and owner’s rent in the real world of uncertainty, Mises did so in some detail. Like Rothbard, Mises (1998, p. 288) maintained that the uncertainty-bearing and ownership functions are conceptually separate and distinct, warning, “One must not confuse entrepreneurial profit and loss with other factors affecting the entrepreneur’s proceeds.” He thus distinguished the “specific entrepreneurial function” which involves “determining the employment of the factors of production” from the entrepreneur’s personal “technological ability” including his “ability to hire adequate helpers.”

For Mises, therefore, “specific entrepreneurial profit or loss” is not influenced by the quality of the owner’s technological ability, which differs between owners and earns higher or lower “wage rates or quasi-wage rates.” For example, entrepreneurs of inferior technical ability in the bottling industry will experience more bottles bursting per given quantity filled in their plants than in more efficiently run plants. However, as Mises (1998, p. 189) pointed out, this reduces physical output and raises production costs, but “does not affect entrepreneurial profit and loss.” According to Mises, the owner’s knowledge of productive techniques is better or worse, but not uncertain. Thus Mises (1998, pp. 189–190) argued that if the risks of accidents are insurable, they do not introduce uncertainty into the conduct of the technological processes. If an entrepreneur neglects to deal with them duly, he gives proof of his technological insufficiency. The losses thus incurred are to be debited to bad techniques applied, not to his entrepreneurial function....

the marginal land earns some rent, even if ‘close to’ zero. Similarly, the marginal firm earns some rent of decision-making ability. We can never say quantitatively how much it will be, only that it will be less than the corresponding ‘decision rents’ of the supramarginal firms.

Note that Mises, too, is reluctant to apply the unqualified term “wage-rates” to the entrepreneur’s undivestible technical function.
In the real world, then, owners of going concerns always earn decision rents, which are part of the composite return to capitalist-entrepreneurs intermingled with profit and interest. Contrary to Topan, to recognize that pure profit and ownership rent together determine the success or failure of the firm under dynamic conditions is not to deny that they are functionally independent of one another. Mises (1998, pp. 289–290) is especially emphatic on this point:

The elimination of those entrepreneurs who fail to give their enterprises the adequate degree of technological efficiency or whose technological ignorance vitiates their cost calculation is effected on the market in the same way in which those deficient in the performance of the specific entrepreneurial functions are eliminated. It may happen that an entrepreneur is so successful in his specific entrepreneurial function that he can compensate losses caused by technological failure. It may also happen that an entrepreneur can counterbalance losses due to failure in his entrepreneurial function by the advantages derived from his technological superiority or from the differential rent yielded by the higher productivity of the factors of production he employs.... The technologically more efficient entrepreneur earns higher wage rates or quasi-wage rates than the less efficient in the same way that the more efficient worker earns more than the less efficient.

In sum, although owner’s rent of an operating firm is always positive, a firm may fail because either: the rents may be insufficient to offset entrepreneurial losses; or the inferiority of decision-making ability compared to that of other owner-entrepreneurs in the industry may result in a relatively high cost structure that wipes out any pure profit and drives the firm’s net return below the natural interest rate. We thus must reject Topan’s claim that Rothbard’s concept of decision making refers “to uncertainty bearing and overcoming.” His contention is based on confounding specifically entrepreneurial “decision making,” which refers to adjusting production to uncertain future market conditions, with “decision making” aimed at efficiently supervising and coordinating his existing property in light of his present production plan.

Topan (2012, p. 86) makes one final attempt to eradicate the owner’s decision-making as an independent category of economic theory by subsuming it under “entrepreneurial judgments,” which he asserts “must be as specific as possible.” By this he means that such judgments should be understood as “referring to particular
circumstances of time, place and persons from the future.” But here Topan all but concedes the point. Owner’s decision making, in Rothbard’s and Mises’s view, refers to judgments of present labor skills, productive techniques, and organizational structures, as noted above.

Topan (2012, p. 87) recognizes that if the ownership function is completely eliminated from economic theory, as he advocates, then he must provide an alternative explanation for the ubiquitous phenomena of high-cost versus low-cost firms. He suggests but downplays the possibility of entrepreneurial errors because these would generate cost differences “of a rather ephemeral nature.” The “more lasting” inter-firm cost differences, he attributes to different preferences for non-pecuniary income among “skillful entrepreneurs” who may, for example, choose an inferior location for their enterprise because of its proximity to their home. But, here again, Topan is admitting owner’s rent into his analysis by the back door. For, unless the entrepreneur is purchasing the land for speculative purchases, his choice of the site is based on his technical knowledge of what constitutes a superior or inferior location for the production of a specific good to be sold on an uncertain future market. He would thus be trading off part of his decision rents rather than entrepreneurial profits for the psychic benefits of a short and pleasant commute to work.

In conclusion, I do not believe that Topan has succeeded in establishing his case that Rothbard’s concepts of the ownership function and its corresponding income of decision-making rent have no place in economic theory. On the contrary, these concepts are essential to comprehending the role of the capitalist-entrepreneur in real-world markets.

REFERENCES


