

# Entrepreneurial Alertness and Spontaneous Learning in the Market Process: the Case of Mama Moon in China\*



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## Preduzetnička budnost i spontano učenje u tržišnom procesu: Slučaj “Mama Moon” u Kini

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### ABSTRACT

*Israel M. Kirzner's theory of entrepreneurial alertness follows closely with Mises' praxeology and argues that the entire role of entrepreneurs lies in their alertness to profit opportunity hitherto unnoticed in the market. In Kirzner's subjectivist theory of knowledge, alertness to opportunity is subconscious learning. Once subconscious hunch is known, it becomes a resource (knowledge) for the entrepreneur to be utilized to exploit profit. Moreover, in Kirzner's view, entrepreneurship means profit arbitrage and it is the continual profit exploitation in the market process that drives an economy towards a higher level of capitalist achievement. Kirzner's theory of entrepreneurship will be illustrated by the case of Mama Moon, a female entrepreneur in tourism, catering and hotel industries in Guilin, China.*

**KEY WORDS:** *I.M. Kirzner, alertness to opportunity, female entrepreneur, spontaneous discovery, knowledge, Mama Moon, Guilin (China)*

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\* **Acknowledgment:** I am greatly indebted to S.M. Kwan who has done proof reading for me in this paper, as well as many papers that published previously. I extend my deep gratitude to her. Of course, she bears no responsibility for any error that remains in the paper.

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## **Introduction**

Apart from Joseph Schumpeter and Frank Knight, Israel M. Kirzner is the most significant scholar contributing to the theory of entrepreneurship in economics during the 20th century (Gunning 1997)<sup>1</sup>. Kirzner argues that the role of entrepreneurs lies in their “alertness to hitherto unnoticed opportunities” (Kirzner 1973:39). His view on entrepreneurial alertness triggers scholars in searching for the causes and nature of alertness. Although Kirzner argues that opportunities are out there to be discovered by entrepreneurs, Baron and Markman (1999:3) contend that entrepreneurs create opportunities more than discover. Baron and Markman postulate that an existing opportunity can be compared to a raw material that can be molded either into a business concept. The quality of an opportunity is largely a function of the person who discovers it. The more human agents are alert, the more likely that they are able to identify the hidden profit opportunities (see also Kandel 2003). Yu (2001) interprets Kirzner’s concept of entrepreneurial alertness and discovery in a subjectivist perspective. He argues that entrepreneurial discovery process is associated with the actor’s interpretation framework which is derived from everyday life experiences. Koppl (2002) uses Schutz’s theory of relevance to explain the origin of alertness. Gunning (2004) interprets Kirzner’s entrepreneurship in strictly Misesian tradition. Very few empirical research applies Kirzner’s theory of entrepreneurial alertness and discovery in terms of Austrian subjectivism. Most empirical applications are in the field of psychology. For example, Kaish and Gilad (1991) conduct a psychological testing on the theory of entrepreneurial alertness. Their results reveal that entrepreneurs raise their alertness to possible business opportunities by using different types of information to project the potential of new business opportunities. Yu (1997) interprets Kirzner’s view as adaptive entrepreneurs and applies the concept to explain Hong Kong’s economic success. This paper will follow Kirzner’s subjectivist view that entrepreneurial alertness is spontaneous or subconscious learning which cannot be obtained by deliberate search or conscious scientific investigation. Kirzner’s insight will be applied to a successful business operated by a female entrepreneur in Guilin, China. In what follows, I shall

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<sup>1</sup> Israel M. Kirzner was awarded “The International Award for Entrepreneurship and Small Business Research” in 2006. For a recent review of Kirzner’s contributions, see Douhan, Eliasson and Henrekson (2007).

review Kirzner's theory of entrepreneurial alertness. Application of Kirzner's insight on a female entrepreneur, 'Mama Moon' in Guilin (China) is then given. Conclusion will be presented in the last section.

### **Kirzner's Theory of Entrepreneurship Revisited: Alertness, Subconscious Learning and Arbitrageurship**

The entrepreneurial process in Kirznerian perspective involves alertness to profit opportunities, spontaneous discovery and profit arbitrageurship. Alertness to profit opportunity is a mind process involving subconsciousness. Alertness to profit opportunity is a hunch. Once the hunch is known, it becomes a resource to the entrepreneur. With the resource (knowledge), through deliberate learning, search and experimentation, the entrepreneur attempts to exploit profit manifested in price discrepancy. Finally, profit arbitrage allows mistakes to be eliminated, economic activities to be coordinated, and the economy to move towards equilibrium.

#### **Alertness to Profit Opportunity and Spontaneous Learning**

For Kirzner (1973), the most important feature of entrepreneurs lies in their alertness to profit opportunities which hitherto have not yet noticed by the others. Put it differently, the ability to be alert to opportunities qualifies human agent to be an entrepreneur. Kirzner (1985:11) contends that the ability does not come from deliberate learning. Instead, it comes from subconscious learning or spontaneous discovery.<sup>2</sup>

From a cognitive perspective, subconscious learning refers to a collection of mental phenomena that manifest in a person's mind, and yet the person is unaware of at the time of their occurrence. These phenomena

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<sup>2</sup> Kirzner (1979: 144-145) classifies knowledge into two types, namely knowledge that can be obtained from deliberate search and knowledge that cannot be obtained by deliberate search. The former can be obtained by deliberate acquired or search. Ignorance of knowledge that might be known through deliberate search or learning can be justified by high cost of search. In other words, to know more of this knowledge means to sacrifice something else. Knowledge that cannot be obtained from deliberate search can only be absorbed spontaneously. Ignorance of such knowledge cannot be explained by high cost of search. Ignorance of such sort is the result of "sheer failure to notice" something that has been there. Kirzner refers to it as "lack of entrepreneurial alertness" (Kirzner 1979: 145).

include unconscious feelings, skills, perceptions, thoughts and habits, and also, automatic reactions, complexes, hidden phobias and concealed desires ([http://en.wikipedia.org/wiki/Unconscious\\_mind](http://en.wikipedia.org/wiki/Unconscious_mind); accessed 24 June 2010). Subconscious learning can be seen as a source of spontaneous thoughts (which appear without apparent cause); the stored memories which are neglected but nevertheless be accessible to consciousness at some later time. One familiar example of the operation of subconscious learning is the phenomenon where one fails to immediately solve a problem and then suddenly has a flash of insight that provides a solution at days later. Hayek (1952) argues that sensory experience in the human mind entails a collection of stimuli in the past. It identifies, imitates and classifies the impulses in conjunction with human senses. Sensory order puts a collection of impulses into different folders or archives and creates a linkage between folders (Hayek 1952:121). When patterns are created, novel ideas or hunch will emerge.

Human agent lacks self-consciousness concerning the hunch before the pattern of hunch is organized. In simple words, human agents do not know they possess such a hunch or a vision of the future. They do not act by deliberately utilizing their hunch for profits. Instead, their actions reflect their hunch. As Kirzner (1985:21-22) argues, [I]f an entrepreneur's discovery of a lucrative arbitrage opportunity galvanizes him into immediate action to capture the perceived gain, it will not do to describe the situation as one in which the entrepreneur has decided to use his alertness to capture this gain. He has not deployed his hunch for a specific purpose; *rather, his hunch has propelled him to make his entrepreneurial purchase and sale*. The entrepreneur never sees his hunches as potential inputs about which he must decide whether they are to be used. To decide not to use a hunch means...that a businessman realizes that he has no hunch.... If one has become sufficiently alerted to the existence of an opportunity-that is, one has become sufficiently convinced regarding the facts of a situation-it becomes virtually impossible to imagine not taking advantage of the opportunity so discovered.

Entrepreneurship is thus not something to be deliberately introduced into a potential production process: it is, instead, something primordial to the very ideas of a potential production process awaiting possible implementation. Entrepreneurial alertness is not an ingredient to be deployed in decision making; it is rather something in which the decision

itself is embedded and without which it would be unthinkable (*italics original*).

Let's take Kirzner's (1985:76) example, assume two goods of higher orders<sup>3</sup>, each valued at \$1 in the market, can be costlessly transformed into a good of lower order which is sold at \$12. There is a profit opportunity of \$10 available in the market but remains unnoticed. Assume a businessman comes across this price discrepancy. Due to some unexplained reason, he does not notice this opportunity at once. Kirzner (1979:120-136) refers to this as economic error. Nevertheless, knowledge of this profit opportunity of \$10 has been spontaneously absorbed but will slowly fade away over time. Assume that this man later discovers that the same higher order good is sold at the price of \$15 elsewhere. In other words, a profit opportunity of \$13 exists. The earlier information that comes across the agents' mind was unnoticed previously (i.e., a profit opportunity of \$10) does not mean that information will remain unnoticed forever. Kirzner (1979:146) argues that, as time passes by, human agents may spontaneously increase the "awareness of information hitherto veiled in ignorance". In simple terms, it is a continual renewal of ignorance. His second experience (i.e., a profit opportunity of \$15) 'intensifies' his hunch. This time, he comes to be alert to the profit opportunity. Though the man is not at once alert to the profit opportunity in his first encounter (i.e., the \$10 gap), spontaneous learning eventually triggers entrepreneurial vision. Human agent cannot be said to have planned his learning. Rather, it is subconscious that functions in the actor's mind. Subconscious learning is thus "synonymous with the transformation of a previously unrecognized 'entrepreneurial vision' (the subconscious hunch) into a recognized contributor to satisfaction. It is also synonymous with spontaneous learning" (Gunning 2004).

Kirzner (1979) emphasizes that hunch is never an ingredient for deliberate action. When the agent comes to be aware of the vision, that vision ceases to be entrepreneurial and becomes a resource and can be utilized through deliberate learning. As Kirzner's (1979: 168-169) writes, human agent's "*realization* that he possesses this definite information resource may itself be entrepreneurial. As soon as he 'knows' that he possesses an item of knowledge, *that* item ceases to correspond to entrepreneurial vision; instead, as with all resources, it is [the] belief that

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<sup>3</sup> Menger (1871/1994) classifies goods into two types, namely goods of higher order and goods of lower order. The former is factors and intermediate **goods** while the latter is consumer goods.

he has the resources at his disposal that may now constitute his entrepreneurial hunch".

### **Spontaneous Learning and Discovery of Error**

There are forces in the market process "that bring about changes in the buying, selling, producing, and consuming decisions" (Kirzner 1973: 70). These forces consist of learning from mistakes. To "explain how yesterday's market experiences can account for changes in plans that might generate alterations in prices, in outputs, or in the uses of inputs...it is necessary to introduce the insight that men...learn from their experiences in the market. It is necessary to postulate that out of the mistakes which led market participants to choose less-than-optimal courses of action yesterday, they can be expected to develop systematic changes in expectations concerning plans" (Kirzner 1973:71). Hence, the scope of entrepreneurship is grounded in the possibility of discovering error. To Kirzner, error occurs not because of resource misallocation or inefficiency due to information problem, as portrayed by neoclassical mainstream economists. Instead, error occurs when a person fails to be alert to an opportunity that he or she comes across. Kirzner provides us a subjectivist theory of knowledge and error. Suppose that an individual has mistakenly attached a low valuation to resources or placed an incorrectly low value on labor time. This implies a room for improvement. If this person discovers that he/she can reallocate the time far more valuably by switching production activities, this implies entrepreneurial insight. Through entrepreneurial discovery, and hence resources reshuffled, the ends achievable with the same amount of labor time now have higher value than the ends that has previously achieved. The discovery of error brings about pure entrepreneurial profit.

Assume further that an individual learns from his/her previous subconscious hunch that certain strategy enables him or her to gain in a market. The hunch becomes a useful piece of knowledge to be utilized. Later, when the same individual experiences a similar choice situation, knowledge, not hunch, will enable the person to make a correct choice. In hindsight, the individual can be said to have realized that he or she possesses a means of satisfying the wants which was previously unaware of. By the time the person knows the hunch, the hunch transforms into a resource – knowledge (Gunning 2004). The utilization of this knowledge is then associated with conscious learning.

Furthermore, as situation changes, yesterday's decision can become incorrect today. Entrepreneurs will constantly be alert to the changing condition in the market and renew their ends-means framework in order to seek pure entrepreneurial profit. Thus, the entrepreneurial process in Kirznerian sense consists of alertness, subconscious learning and continual adjustment.

### **Promoting Entrepreneurial Alertness**

According to Kirzner (1985), there are two kinds of knowledge.

1. Technical knowledge: these are skills in utilising given physical resources which can be obtained by deliberate search or R&D
2. Knowledge of opportunities: this knowledge cannot be obtained by deliberate search. It requires entrepreneurial alertness.

For Kirzner (1985: 73-74), economic growth of a nation occurs in two ways:

1. Improvement in technical knowledge: Neoclassical growth theories emphasize on this kind of knowledge which can be conducted by R&D.
2. Increased awareness of the availability of opportunities: In this category, economic growth occurs not only because of the availability of new opportunities, but because of expanded awareness of unexploited opportunities. Hence, economic growth requires not only that expanded productive possibilities, but also needs entrepreneurial alertness and discovery.

If entrepreneurial alertness is so important in economic growth, then what are the causes of it? In literature, the problem-solving argument contends that most people will awaken when they encounter a sudden crisis or a rapidly changing external condition (Choi 1993). The theory of self-competition argues that people compete with their inner self. It is defined as "inter-temporal competition between future and past selves stemming from the desire of the present self to test self-ability" (Khalil 1997). In simple terms, human agents have a desire and passion to fulfill a vision, to see things become true.

Kirzner argues that entrepreneurial vision may not arrive deliberately, rationally, but neither is it arrived purely by chance. It is the "purposefulness of human action that tends to ensure, in some degree, that opportunities come to be noticed" (Kirzner 1979:170). Spontaneous

learning or alertness to profit opportunity is a subconscious process. It can be encouraged by the possibility of gain. He says: “[i]f we know anything at all about the process of spontaneous discovery of information, it is that this process is somehow altogether more rapid when the relevant information will be of benefit to the potential discoverer” (Kirzner 1979: 149). Gunning (2004) elaborates that, Subconscious learning can be encouraged by institutional arrangements. Institutional arrangements determine the gains that are available to different individuals when they subconsciously learn. Because subconscious learning in some individuals is superior to that in others, it is important that those who are superior receive higher gains.

Kirzner (1979:150) argues that institutional arrangements are private property rights, free enterprise and the use of money in calculation. That is, the free market system provides an environment for subconscious learning to occur. This setting allows market participants to translate unnoticed opportunities into the forms that tend to excite the alertness of those most likely to notice (Gunning 2004).

In this paper, Kirzner’s concept of entrepreneurial alertness and its contribution to economic progress will be illustrated by the case of Mama Moon who is a legendary tourist guide from a well-known tourist attraction in Yangshuo, Guilin (China).

### **Mama Moon in Guilin, China**

Yangshuo, Guilin (China) is well known for its superb landscape. At the foot of Mountain Moon in Yangshuo, there is an old tourist guide called Xiuzhen Xu who is now around 70 years old. Xu had an education equivalent to year 3 and yet had the ability to communicate with tourists in eight foreign languages<sup>4</sup>. A tourist described in his blog this way, “I didn’t take notice of this old lady who couldn’t appear more common—an outmoded brown gingham shirt shouldered by bony body, face tanned and deeply wrinkled—a concrete example of women working in farm fields in South China. Nevertheless, amazement rose up from my heart when she spoke in fluent English to invite us to have lunch in her home” ([http://blog.sina.com.cn/s/blog\\_5c4ea4610100bkh0.html](http://blog.sina.com.cn/s/blog_5c4ea4610100bkh0.html), accessed on 2 July, 2010). She is described by many tourists as kind, friendly, warm and

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<sup>4</sup> She was able to communicate with tourists in English, French, German, Danish, Korean, Italian, Swedish and Israeli. However, she could not read or write these languages.



fun, and her hospitality captured the hearts and friendship from people around the world. As a result, overseas tourists honor her as “Mama Moon”<sup>5</sup>, who is like a caring mother for people coming from everywhere.

Mama Moon came from a village nearby the town Yangshuo, Guilin. She married to a man who was eight years older than her. Life in the rural area was harsh and income from the field was barely enough for her family. Human agents would like to improve their well-beings whenever possible. As Mises (1949:14) argues, “acting man is eager to substitute a more satisfactory state of affairs for a less satisfactory. His mind imagines conditions which suit him better, and his action aims at bringing about this desired state.” Mama Moon was no exception.

In 1995, Yangshuo city government promoted Mountain Moon as an international tourist attraction. Since then, many overseas tourists poured in. This provided business opportunities for people living in the areas. In order to make daily ends meet, Xu, like other villagers, went to the town to seek a fortune. Xu’s action cannot be regarded as ‘entrepreneurial’. As Kirzner (1973) contends, the role of entrepreneur is to identify *hitherto* unnoticed opportunity. Seeking fortune in a tourist town was too obvious for Xu and other villagers to ignore. Xu merely surfed on the wave of fortune-seeking in a new place. Without any education, skill and business experience, the thing that a farm woman could do in a tourist town was very limited. Xu eventually managed to sell soft drinks to the tourists. Yet, her business was not good. Sometimes, she could not even sell out one bottle of soft drink. On the contrary, her fellow vendors could sell around 30 bottles a day. She sought the reasons and found out that her soft drinks were not cold because she did not have a fridge while other vendors sold icy cold soft drinks from the fridge. Secondly, she could not speak English. When foreigners complained that her soft drinks were not cold, she did not understand. She then asked her son-in-law to teach her simple English conversation in order to upgrade her competitive edge. This is deliberate learning in Kirzner’s view. Xu purposively pursued a means to achieve an end in order to survive in the market.

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<sup>5</sup> It is reported that the name was given to her by an Australian girl, who left complimentary words in Xu's notebook: "How I want to call you Mama. You are a kind of 'Mama Moon' living at the foot of 'Moon Hill.'" (*People Daily Newspaper*, August 10, 2000). In this paper, Mama Moon and Xiuzhen Xu are used interchangeably.

## **Mama Moon's Alertness to Opportunities and Her First Spontaneous Learning**

One day, as Mama Moon felt boring while waiting for customers, there were two Italian tourists who did not know the way to enter a stalactite cave (a famous cave in Yangshuo). They approached Mama Moon for help. Showing her hospitality, Mama Moon used simple English words and hand gesture to show them the way as they walked on. As they became familiar with each other, Mama Moon even voluntarily served as a tourist guide for them. At the end of the day, the Italians asked Mama Moon how much they should pay her. Mama Moon said no worry. However, they paid 50 Yuan to her as a gratitude. After she got the money, she discovered that being a tourist guide was a good way to earn a living. This hunch occurred in Mama Moon's mind. She was alert to a profit opportunity. She discovered that her labor was previously put on a low value production activity. This was an error. Being a tourist guide for three hours, she could earn 50 Yuan, while selling soft drinks for three days could not even get that reward. Alertness to the price discrepancy of her labor, Mama Moon decided to act as a tourist guide. This change represented a kind of arbitrage activity in the sense that she made better use of her labor which was previously valued wrongly. She knew that she needed to improve her English if she wanted to be a tourist guide for the foreigners. She then deliberately learnt English. Discovery of a new opportunity (being a tourist guide) was a hunch while seeking English skills was deliberate learning. The process of learning English for an old woman was painful. At the beginning of learning, pronouncing English words by using Chinese characters, Mama Moon memorized some English words via rote learning. After studying hard for several years and frequent conversation with foreign tourists, Mama Moon could speak basic eight foreign languages. Apart from learning languages, Mama Moon also established good friendship with the foreigners. This helped her business in future.

## **Keen Competition in the Market**

Kindness, honesty and friendliness earned Xu a good brand name in Yangshuo's sightseeing business. As a matter of fact, many local tourist guides earned commissions from discounts given by hotels or souvenirs shops. While other tourist guides only aimed at earning commissions from

tourists, Xu stood on the tourist side and bargained with local shops or vendors for the tourists. Hence, local people accused Mama Moon of violating the rule of game in the market. They united together to condemn Mama Moon and tried to push her out of business. For instance, whenever the tourists made an enquiry of her, they would reply that she was already dead or retired. Public Choice School argues that a common method to eliminate competitors was to call for government regulation. Local tourist and hospitality industry lobbied the city government to issue tourist guide licence. Mama Moon needed to apply for one in order to be a tourist guide. This made life difficult for an old lady such as Xu for she did not have any formal education (<http://www.Shanghai expat.com/MDForum -viewtopic-t-44337.phtml>, accessed on 5 July 2010). The city government at first refused to issue her a licence for they hardly believed that Xu could speak any foreign language. Eventually, after a series of appeals, the city government was convinced that she was capable of being a tourist guide. They issued her a licence on a special permission and allowed her to continue to operate as a tourist guide.

### **Entering the Catering Business**

Xu was happy to charge \$60 per person as tourist guide fee. At the peak season, she could earn around \$200 per day which was quite an income for a farm lady at that time. Xu had never considered entering the catering business. She did not know that another opportunity waiting for her to be discovered. One day, five Americans finished touring Mount Moon and walking down the hill with Mama Moon. One man asked Xu where she lived. She pointed to the farm house down the hill. The Americans found that her little farm house was surrounded by a green field and creek. The scenery was as charming as a Monet's painting. Xu then invited them to visit her house. However, five Americans hesitated because they were starving after a full-day trip. They asked Xu where they could find something to eat before going to see her house. Xu replied that they could eat in her farm house. However, she reminded them that what she could provide were only some raw farm foods and nothing could compare with those restaurants in the downtown. The Americans replied that they did not mind to try. Xu then prepared a meal of typical farm meal, with vegetables and meats freshly obtained from the home farmyard, including pumpkin, eggplant, beans, pork and eggs. Five Americans enjoyed a very gorgeous farm meal with rice wine and beautiful scenery. At the end of the

day, each of them put \$15 on the table as a kind of remuneration to Xu. This was a good pay off for Mama Moon. Suddenly, a hunch popped up in her mind: “hey, I can also enter into the restaurant business and earn more income by utilizing the manpower of my family members”. She put her hunch on trial and found that the idea worked. In this way, Xu entered the catering industry and promoted “Mama Moon’s farm meal”. Her restaurant business blossomed because foreigners enjoyed fresh and uncontaminated vegetables and meats, and a beautiful scenery (<http://www.yoo66.com/zx/article.jsp?id=865>; 2 July 2010).

### **Offering Full Package: From Tourist Guide, Catering to Accommodation**

It has to be noted that those tourists approaching Mama Moon were mostly backpackers. They can only afford cheap and budget food and accommodation. For rich foreigners, they usually travel by organized tour and stay in relatively expensive hotel. Furthermore, backpackers in general prefer to stay in guest house or farm house so that they can experience local lifestyle. Fancy hotels and facilities are not their prior importance. Villagers such as Mama Moon were able to fill in this market gap by providing budget food and accommodation. Mama Moon’s farm house was a large two-storey building with plenty of open space and rooms. With her experience in providing farm meal, Mama Moon then thought of providing budget accommodation to the tourists at the upper floor of her farm house. Her foresight was again proved correct. All visitor’s rooms at the upper floor were quickly occupied by young backpackers. She called her guest house as ‘Mama Moon Inn’. In this way, Mama Moon transformed from a farm lady to an entrepreneur in tourist, catering and accommodation businesses.

### **Explaining China’s Recent Economic Miracle: Entrepreneurship in Unfettered Capitalism**

Mama Moon is not an isolated case in China. After Deng’s Open Door policy in 1979, thousands of entrepreneurs in China have moved to the city to “look” for an opportunity just like Mama Moon did. Many of them have started a small enterprise, but then turned into gigantic multinational firms via their entrepreneurship. Among them are Wenbing

Lu (Little Sheep Hotpot), Jack Ma (Alibaba.com), Qinghou Zong (Wahaha Beverage), Shufu Li (Geely Automobile Holdings); Cheng Fei Zhang (Nine Dragons Paper)<sup>6</sup>. These entrepreneurs have emanated their alertness capabilities and exploited profit opportunities for their advantages. As a result of their efforts, China has achieved high income growth in the last decade. Again, the crucial issue is what factors stimulate alertness to profit opportunity of Mama Moon and many other entrepreneurs in mainland China which was once a radical communist society. Kirzner (1980) argues that human agents tend to notice that which it is their interest to notice<sup>7</sup>. In other words, it is the self-interest motive that enhances the entrepreneur to be alert. It follows that, for Kirzner, in order to switch on the alertness of potential discoverers, gain must be offered to potential discoverers themselves. Accordingly, the free market system is conducive to entrepreneurial alertness for it permits agents to reap gains from their discoveries (Kirzner 1979:148-151).

China has a huge pool of human resource. During the Cultural Revolution (1966-76), China pursued radical socialism in which all resources were communally owned and shared. Private ownership of property was prohibited. During ten years of extreme communism, private entrepreneurs vanished, though political entrepreneurs participated enthusiastically in unproductive rent-seeking activities. As a result, China became one of the poorest nations in the world. Correcting extreme communism, Deng's government pursued Open Door policy and four modernizations. One of the most important institutional reforms has been to allow rural farmers to keep apart of their rewards through an incentive device called "rural responsibility system". Later, the so-called "capitalism in Chinese socialist style" extended to industrial and service sectors. As a result of the institutional reform, talented entrepreneurs have continued to spring up in mainland China. They identify and exploit profit opportunities and indirectly boosts up national economic growth. In other words, economic growth in China occurs because of expanded awareness of unexploited opportunities by these entrepreneurs. It can be said that profit-seeking in mainland China nowadays is relatively unfettered. The change from radical communism to unfettered capitalism is an important institutional change. It enhances entrepreneurial alertness hidden in every

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<sup>6</sup> See *Forbe's* "400 Richest Chinese List 2009" ([http://www.forbes.com/lists/2009/74/china-billionaires-09The-400-Richest-Chinese\\_Rank\\_2.html](http://www.forbes.com/lists/2009/74/china-billionaires-09The-400-Richest-Chinese_Rank_2.html), accessed on 5 July 2010).

<sup>7</sup> In a cognitive literature, this is called selective entrepreneurial attention (Gifford 1992).

human agent's mind. Kirzner (1979: 149) rightly concludes that, It would be a mistake to imagine...that spontaneous discovery is a wholly unexplainable process...[I]t is clear that opportunities for social improvement will tend to be exploited most fruitfully if institutional arrangements can be patterned so as to translate such opportunities into opportunities that will be encountered by those whose entrepreneurial alertness is the most acute, the most sensitive, the most accurate...Entrepreneurial alertness, that is, is sensitive not so much to information per se as to information that can be deployed to one's advantage.

Economic reform in China has provided an environment for entrepreneurs to achieve self-gain by simulating their subconscious learning, hence indirectly contributing to China economic growth.

## **Conclusion**

There are many factors that explain China's economic growth in the last decade. This paper focuses on one factor, namely entrepreneurial alertness, to explain China's recent economic growth. **Mama Moon**, a female entrepreneur in tourist, catering and hotel industries in Guilin, is a celebrated illustration of Kirzner's theory of entrepreneurial alertness and arbitrageurship. It is believed that many interesting cases similar to Mama Moon in mainland China can be found and worthwhile to be reported. Further research on entrepreneurship in Kirzner's perspective is called for.

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**A P S T R A K T**

*Teorija preduzetničke budnosti Izraela Kirznera, oslanja se na Mizesovo misljenje da celokupni smisao uloge preduzetnika leži u njihovoj spremnosti da brzo odreaguju na profitne mogućnosti, koje nisu ranije bile prepoznate na tržištu. U Kirznerovoj subjektivističkoj teoriji znanja, budnost po pitanju šansi predstavlja učenje na podsvesnom nivou. Kada podsvesni predosećaj jednom postane poznat na svesnom nivou, on postaje resurs (znanje) koji treba iskoristiti u cilju ostvarenja profita. Pored toga, prema Kirzneru, preduzetništvo podrazumeva stalno procenu profitnih mogućnosti i neprekidno stremljenje njegovom ostvarivanju; u tržišnim procesima to je nešto što vodi ekonomiju napred ka višim nivoima kapitalističkog uspeha. Kirznerova teorija preduzetništva biće prikazana na primeru “Mama moon”, ženske preduzetnice u turizmu, ugostiteljstvu i hotelskoj industriji u Guilinu u Kini.*

**KLJUČNE REČI:** *I.M. Kirzner, budnost prema šansama, žensko preduzetništvo, spontano otkriće, znanje Mama Moon, Guilin (Kina)*

Article history: Received: 15 June 2011

Accepted: 5 October 2011