Introduction: The present status of Austrian economics: some (perhaps biased) institutional history behind market process theory

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THE EMERGENCE OF THE AUSTRIAN SCHOOL (1870s–1920s)

Published in 1871, Carl Menger's *Principles of Economics* challenged both the German Historical School and orthodox English political economy. His development of economic theory was interpreted, however, as a contribution to a new, neoclassical orthodoxy, as opposed to a different, if not altogether pathbreaking, research program. Menger's contemporaries credited him as a marginal revolutionary, along with France's Leon Walras (*Elements of Pure Economics*, 1871) and Britain's William Stanley Jevons (*Principles of Political Economy*, 1873), who sought to root economic analysis in individual decision-making at the margin. Generations of economists would interpret the three revolutionaries as offering an identical analysis, whose differences, if any, were merely matters of analytical rigor and style.

Even Menger's students, Eugen von Böhm-Bawerk and Friedrich von Wieser, viewed their own work (*Capital and Interest* (1884–1912) and *Natural Value* (1889), respectively) as refinements in the growing school of neoclassical economics. The antagonists of economic science at the time were Marxism (considered a hold-out from classical economics), and historicism and institutionalism (considered anti-theoretical and methodologically unsophisticated). Neoclassical economics was "scientific" economics, while other approaches were, at best, frowned upon as pseudo-scientific, or outdated.

Menger and his students were not fully aware of the uniqueness of their own contribution. The Austrians were, indeed, about to launch a new school of thought. Austrians differed from their colleagues in many respects. They deliberately avoided formal mathematical modelling, for example. Menger rejected mathematics for philosophical reasons, rather than a distaste for equations: mathematics, he believed, could not successfully penetrate the "essence" of human behavior. Compared to their neoclassical colleagues, the Austrians had a more radical understanding of "subjectivism" and value theory. This created incommensurable differences in price theory (e.g., Austrians argued that subjective evaluation explains both market demand *and* supply, rejecting the "Marshallian scissors" metaphor), as well as capital and interest theory (e.g., witness the debates between Böhm-Bawerk and Clark over the marginal productivity theory of interest), and monetary theory (e.g., recall Ludwig von Mises's attempt to secure a microfoundation for monetary economics as far back as 1912, thus rejecting the micro–macro split that characterized neoclassical economics). Long before Sir John Hicks's development of indifference analysis, Mises and Franz Čuhel provided an ordinal concept of utility that held a purposive, rather than mathematical, meaning. For Menger and his students, economics was not so much the application of calculus to questions regarding production and distribution, but, instead, it was supposed to offer an understanding of the way knowledge, ignorance, time, and uncertainty influence human activity and the overall market process.

Decades passed before the Austrian School clashed with neoclassicism. And then two grand debates raged over events of the 1930s and 1940s: with the Great Crash of 1929 and the ensuing Great Depression, economists rushed headlong to determine not only the cause but, more importantly, the cure for the economic malaise. In 1931, Mises's student and close colleague, F. A. Hayek, left Vienna, to visit (and then later to assume the Tooke Chair in Economics and Statistics at) the London School of Economics. Immediately, he became John Maynard Keynes's arch-rival. Applying the Austrian theory of the trade cycle, which had been first developed by Mises, Hayek offered an interpretation of the Great Depression which focused on the monetary policies of the US and UK governments. Hayek's pro-market conclusions were unpopular among government officials – since he called for government to stay out and to develop binding constraints on future credit expansion – and among the general lay population – since Hayek interpreted unemployment and mass bankruptcy as necessary correctives to a malinvested capital order. The fundamental issue at stake in the Keynes–Hayek debate, however, was theoretical, and centered around differences in Austrian and Anglo-Saxon capital and monetary theory.[1]

CRASH AND BURN: AUSTRIANS AS ORTHODOX ECONOMISTS…AND IDEOLOGISTS (1930s–60s)

Despite its controversy, the debate with Keynes nevertheless failed to challenge the Austrians' self-understanding of their place among the mainstream economics profession. Mises and Hayek misinterpreted Keynes's *General Theory* (1936) as simply a return to the inflationist fallacies of the past (which even crude versions of the quantity theory had denounced) and an economics of abundance (which denied that capital resources are scarce). That, too, was a rhetorical ploy. Orthodox economics, according to the Austrians, was all that was needed to expose the fundamental problems with Keynes.[2]

The Great Depression influenced not only Keynes. It also legitimized appeals for socialism. A new wave of criticism damned capitalism as inherently chaotic and unjust – subjecting people to forces beyond their control. Despite growing research in Austrian cycle theory, business fluctuations were reaffirmed as inherent features of capitalism.

Yet nothing in the popular proposals of socialism would challenge the self-understanding of Austrian economists as orthodox members of the economics community. In the 1890s Böhm-Bawerk marshalled neoclassical economic theory to offer a criticism of Marx's analytical arguments about value and prices under capitalism. In 1920, Mises turned to socialist proposals for economic planning, demonstrating that without private ownership in the means of production socialist planners could not rationally calculate the alternative use of scarce resources. But, by the 1930s, Oskar Lange used the techniques of neoclassical economics to demonstrate that Mises's criticism was invalid under the normal assumptions of general equilibrium. In Lange's model, a central planning board was substituted for Walras's fictional auctioneer. By trial and error methods, central planners can discover general equilibrium prices, which state-owned enterprises take as given parameters. The enterprises are bound by two simple rules – minimize average total costs and produce to the point such that marginal cost equals price. Lange demonstrates that a socialist society can achieve a general equilibrium that is both allocatively and productively efficient.

Lange's criticism of Mises took the Austrians by surprise. A remarkable achievement in neoclassical theory, Lange's model was also widely accepted by the economics profession. Frank Knight and Joseph Schumpeter concurred, in principle, with Lange's assessment of the analytical issue, and younger economists, such as Abba Lerner, began to develop Lange's argument further.[3] Later, both Mises and Hayek tried to articulate more clearly the main tenets of Austrian economics. But, by this time (the 1940s) it was too late for the contemporary generation of economists. Most agreed that the

Austrians lost... and the debate was relegated to historians of economic thought.

Austrian economics was soundly defeated by both Keynesianism and neoclassical socialism. These arguments were not as disconnected as the Austrians may have believed. Neoclassical socialism challenged the efficiency arguments of the private market. In its weakest form, the argument of Lange and Lerner could be interpreted as demonstrating that socialism could perform as well as the private market. But there was a stronger argument. In the face of monopoly power under capitalism – that is, a lack of real, perfectly competitive markets – socialism would be even more efficient than real existing markets. Thus, neoclassical socialism devastated the formal microeconomic efficiency claims for the market economy. Keynesian economics swung from the other side, and challenged the macroeconomic stability claims of the market.

The Austrians were not idle during this period. Mises had published his magnum opus, *Human Action: A Treatise on Economics*, in 1949 and Hayek published *The Pure Theory of Capital* in 1941, *Individualism and Economic Order* in 1948 and *The Counter-Revolution of Science* in 1952, yet hardly anyone in the economics profession listened. The arguments of Mises and Hayek about the effectiveness of free markets (as espoused in their popular policy books such as Mises's *Bureaucracy* and *Omnipotent Government* in 1944, and Hayek's *Road to Serfdom* in 1944) were interpreted as ideologically motivated polemics, rather than serious scientific contributions. Mises and Hayek were no longer viewed as formidable economists, but rather as political pundits on the far right. From 1950 to 1975, Austrian economics sunk so far from the mainstream that it became subterranean, at best.

A few emigrant Austrians did enjoy professional success in the 1950s (Fritz Machlup and Oskar Morgenstern leap to mind), but they did not stress their "Austrianism," and avoided policy issues. On the other hand, Milton Friedman and George Stigler grew in professional prominence in the 1950s developing arguments favorable to the free market, but from an entirely different analytical perspective than the Austrians. The "crash and burn" of Austrian economics in the late 1940s cannot be solely explained simply by the policy positions. The professional successes of Friedman and Stigler, and the entire Chicago School of Economics, counter the policy bias. Nor can the Austrians' failure be explained by some ignorance of the intellectual scene in the United States (at least Machlup and Morgenstern counter the cultural gap explanation – they both rose to professional prominence at Princeton). The real problem, as we interpret it, is that Mises and Hayek were closely wedded to a certain methodological tradition in economics, an anti-positivism that was completely rejected by the 1950s. Their work simply appeared anachronistic to the majority of economists, who preached positivism and formal modelling.

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Mises emigrated to the United States in 1940. He originally accepted a position at the National Bureau of Economic Research and offered a graduate seminar as a visiting professor in the Graduate School of Business at New York University. In 1945, Mises left the NBER and taught at NYU full-time (though with a salary provided by outside foundations after 1949), which lasted until his retirement in 1969.[4] Hayek, on the other hand, left the LSE and the economics profession in 1950 to assume a professorship on the interdisciplinary Committee on Social Thought at the University of Chicago.[5] A self-consciously Austrian School of economics failed to take root in the graduate education of economists or social scientists in the United States. Hayek did not teach economics students, but rather political and intellectual historians (such as Ralph Raico or Ronald Hamowy). Mises taught a handful of doctoral economics students during his 25 years at NYU, most notably Louis Spadaro, Hans Sennholz, George Reisman, Israel Kirzner and Murray Rothbard (who was not technically his student but pursuing a Ph.D. at Columbia under the supervision of Joseph Dorfman).

Except for Kirzner and Rothbard, neither Mises's nor Hayek's students pushed or challenged the frontiers of economic theory. Instead, they contributed, in their own way, to a resurgence of classical liberal political theory. Raico and Hamowy, for example, edited the *New Individualist Review*, and Spadaro, Sennholz and Reisman pursued teaching careers at Fordham, Grove City College, and Pepperdine, respectively. Sennholz, in particular, produced a stream of undergraduate students from Grove City College who later pursued their Ph.D.s and/or became leaders in American classical liberal foundations and think-tanks. These individuals, however, remained uninterested in refining and testing Austrian economic theory. Gone was the one ingredient that assists scientific growth in a body of thought: curiosity of the subject matter, independent of its political and ideological consequences. Austrian economics was now part of a subculture that was mainly interested in resuscitating the argument for a free society based on classical liberal principles.

The main institutional components of this "movement" were the Foundation for Economic Education in New York, founded by Leonard Read in 1946, and the Mont Pélèrin Society, founded by Hayek to gather an international group of scholars and intellectuals working on developing arguments for the free society. The Mont Pélèrin Society was designed to downplay analytical and methodological differences amongst the scholars and forge cooperation between them to further the argument for a free society.[6]

The Foundation for Economic Education, while uniquely Austrian in outlook, pursued a strategy of persuading the common man and did not try to affect the scholarly community concerning the nature of economic reasoning. The free market ideology was seen as important, not the analytical understanding of the market process. FEE became the intellectual home of Mises and Henry Hazlitt.

Since Austrian economics, however, was seen by some as providing the most consistent and uncompromising defense of the free society, some foundations and institutes did target research along Austrian lines. The William Volker Fund, for example, did try to affect change in the scholarly community, but, similar to the Mont Pelerin Society, it was not so much concerned with Austrian economics as such. It, too, explored classical liberalism, and therefore, supported research among those schools with definite classical liberal traditions: Chicago, Austrian and Public Choice. The same was also true for the Institute for Humane Studies, founded by F. A. Harper in the early 1960s when the Volker Fund dissolved – though IHS was much more closely associated with Austrian economics. Harper's mission was to forge an interdisciplinary approach to social theory that would resurrect classical liberalism and place it on a firm foundation of economics, ethics, politics and history. Austrian economic theory, he thought, must play a significant role in this endeavor.

In the meantime, standard economic theory had become increasingly technical, following Paul Samuelson's impressive *Foundations of Economic Analysis* (1947). In fact, this technical revolution was wedded to the previous developments of neoclassical economics that emerged in the debates with the Austrians: Samuelson pioneered the neoclassical synthesis with Keynesian economics and endorsed the Lange–Lerner position on market socialism. Moreover, Samuelson further developed the case against the free market with his formalization of the theory of market failure. In this intellectual environment, it would be difficult for younger Austrian economists to know how to even begin addressing the economics profession.

Younger Austrians during the 1950s and 1960s would instead try to communicate with the general public through seminars and publications like *The Freeman* and to lure particularly bright young people into the college classroom through an ideological defense of the market process. But we believe this was a self-defeating strategy: without further analytical developments of an Austrian theory of the market process, mere ideological defenses would collapse under the argumentative weight of the economics profession and, as a consequence, even further marginalize Austrian economics. Austrian economics, by the 1960s, was neither developed enough nor strategically placed to precipitate a change in the profession. It amounted to little more than a bombardment of soap bubbles against the mainstream establishment.[7]

In retrospect, the Austrians needed to embark upon a radical paradigmatic challenge against the core of neoclassicism, regardless of its ideological consequences. Ideally, a sustainable *scholarly* movement should instill in individuals the desire to *understand* the world *first*, independently of their ideological desire to change the world (students of Marx will recognize a modification of Marx's eleventh thesis on Feuerbach here). Unfortunately, Austrian economics, as interpreted by its handful of students in the 1950s, needed no refinement, critical reflection, nor change: it was considered free-market wisdom to be dispensed to anybody who would listen, in the hope of rebuilding a political program for laissez faire.

TOWARD PARADIGMATIC CHALLENGE: AUSTRIANS AS RADICAL ECONOMISTS (1960s–80s)

Hints of an Austrian counter-revolution in economics surfaced in the early 1960s with the work of Murray Rothbard and Israel Kirzner. Their paths differed somewhat, but their message was the same: the time had come for a reconsideration of the basic questions about the nature and scope of economic theory. Kirzner pursued this re-orientation through a series of tightly focused monographs: first, a book on the meaning of the subject matter of economic science (*The Economic Point of View*, 1960, his Ph.D. thesis written under Mises at NYU), followed by an enquiry into price theory (*Market Theory and the Price System*, 1963) and capital theory (*An Essay on Capital*, 1966). Then, in 1973, Kirzner published his landmark study, *Competition and Entrepreneurship*. If economic theory was an apple, Kirzner sought to get at the core with the paring knife of careful analysis.

Murray Rothbard used an ideological sledge hammer. At the age of 32, Rothbard offered the economics profession not a carefully focused monograph, but a formidable treatise which tried to recast neoclassical economics along Misesian lines. *Man, Economy and State*, published in 1962, was a *tour de force* over 900 pages long. Rothbard's book gave students the impression that he simply read and digested everything in the economics journals (and history and politics). The book covered every field, from basic choice theory to business cycle theory, from the failures of wage and price controls to the problems of socialism.

Considering the impact of their two different approaches, it seems that the skilled use of the analytical knife worked better than an indiscriminately swung sledge hammer. Kirzner's careful analysis of price theory and especially the fundamental role of entrepreneurship in a systematic theory of the market process captured the attention of neoclassical microeconomists. Kirzner was too good a scholar and had too careful a mind to be simply ignored (although even he too would be dismissed by some).[8] Rothbard, on the other hand, was jettisoned as a wild-eyed ideologue. Rothbard had embraced from the beginning of his career an interdisciplinary and ideological turn, writing a series of works beyond technical economics which, nevertheless, proved to be fundamental for the resurgence of Austrian economics. He hoped to build a comprehensive scientific defense of the free society that included not only economics, but history, politics and philosophy as well. *The Panic of 1819* (his doctoral thesis at Columbia, published 1962) and *America's Great Depression* (1963) employed Austrian trade cycle theory to interpret crucial historical events. *Power and Market* (1970) provided some important ideas for the economic analysis of public policy. And, *For a New Liberty* (1973) became the manifesto of a new libertarian movement which rejuvenated classical liberalism and lifted it from a conservative stagnation.

Rothbard's libertarian polemics did inspire an entire generation of young scholars to study Austrian economics in depth. Rothbard was a necessary, though not sufficient, component of the renewed interest in Austrian economics as a scholarly vocation. Once students and young professors were enticed to examine the analytical foundations of Austrian economics, most turned to Kirzner, who was quietly working on the intricacies of theory at New York University. In the fall of 1974, Hayek was awarded the Nobel Prize in Economics for his contributions to monetary and trade cycle theory. Combined with the libertarian intellectual movement Rothbard had created, and the analytical puzzles Kirzner worked on, the awarding of the Nobel Prize to Hayek created the conditions for an Austrian resurgence from the underground of the economics profession.

In the summer of 1974 the Institute for Humane Studies and the Liberty Fund undertook a series of initiatives to help place Austrian economics within the mainstream of the economics profession. A conference in South Royalton, Vermont was held, at which a new generation of young economists was introduced to Rothbard, Kirzner and Ludwig Lachmann. Lachmann, Hayek's student at the LSE in the 1930s, was teaching in South Africa and had done work in the 1940s and 1950s on Austrian capital theory, leading to the publication of *Capital and Its Structure* in 1956, and had recently been re-examining the implications of radical subjectivism for economic theory under the influence of G.L.S. Shackle (also a student of Hayek's at the LSE), especially Shackle's *Epistemics and Economics* which was published in 1972.[9]

The conference was successful and produced a volume, *The Foundations of Modern Austrian Economics* (1976), edited by Ed Dolan. During the same year of the South Royalton conference, Larry Moss organized a fruitful session on Mises for the Southern Economic Association, and later published those conference papers and comments in *The Economics of Ludwig von Mises: Toward a Critical Reappraisal* (1976). Other annual conferences followed, which in turn produced additional volumes: *New Directions in Austrian Economics* (1978), edited by Louis Spadaro, *Time, Uncertainty and Disequilibrium* (1979), edited by Mario Rizzo, and *Method, Process and Austrian Economics* (1982) and *Subjectivism, Intelligibility and Economic*

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Understanding (1986), both edited by Israel Kirzner. Kirzner's ability to establish the Austrian Economics Program at New York University was key to the resurgence. This program allowed Ph.D. students to work on dissertations in the Austrian tradition that would not be possible at other institutions. Also, Kirzner arranged with Ludwig Lachmann an annual visit to the NYU department for each spring semester, where he would teach a graduate seminar on economic theory. A regular workshop was established, and Kirzner and Lachmann were joined on the faculty by Mario Rizzo and Gerald O'Driscoll and later Lawrence H. White.

Kirzner also brought in several visiting faculty members (such as Stephen Littlechild, Leland Yeager, Don Bellante, Roger Garrison, Uskali Mäki, and Stephan Boehm), and the weekly workshop in Austrian economics soon became the leading forum for new Austrian research not only in the United States, but throughout the world. New collections from research conferences mentioned above were produced, classic works in the Austrian tradition were reprinted, and new books published. O'Driscoll published a monograph on Hayek's contributions to economics, *Economics as a Coordination Problem* (1977, based on his Ph.D. thesis at UCLA). Kirzner continued his analysis of the entrepreneurial process in *Perception, Opportunity and Profit* (1979) and *Discovery and the Capitalist Process* (1985).

Don Lavoie, Richard Fink, John Egger, and George Selgin were among doctoral graduates of the Austrian Economics Program at NYU. Several other students spent extended periods of time at the NYU program as visitors while they completed their studies elsewhere. Jack High, for example, while a Ph.D. student at UCLA, spent a year at NYU studying in the Austrian program. Richard Ebeling also spent a considerable amount of time in the NYU program and has pursued an academic career, accepting the Ludwig von Mises Professorship at Hillsdale College. And, Walter Grinder (who is currently the vice president of the Institute for Humane Studies), was one of Kirzner's graduate students in the 1960s, and played a significant role in the resurgence of Austrian economics in the 1970s. In particular, Grinder was largely responsible for introducing Ludwig Lachmann's work to modern Austrian economics through his collection of Lachmann's papers, *Capital, Expectations and the Market Process* (1977), which included a lengthy and highly informative introductory essay on Lachmann's research program of radical subjectivism.

THE ROLE OF THE CENTER FOR THE STUDY OF MARKET PROCESSES IN THE RESURGENCE

This next generation of Austrian economists embarked upon an innovative scholarly movement. Our history, however, will only deal with one strand of these developments in the 1970s.[10] In 1979 Richard Fink founded an undergraduate program in Austrian economics at Rutgers University. Fink had himself been an undergraduate student at Rutgers, where he was introduced to Austrian economics by Walter Grinder, when Grinder worked as a professor at Rutgers for several years. Fink then went on to graduate school at UCLA, receiving an MA in economics, and then pursued and obtained his Ph.D. at NYU. Fink brought Joe Salerno (a new Ph.D. from Rutgers who was working on aspects of Austrian monetary theory), Richard Ebeling, and Don Lavoie to teach in the program at Rutgers. But Rutgers did not prove to be the right environment for a fledgling Austrian program. In 1980, through the insightful initiative of Karen Vaughn, a deal was engineered so that Fink could move his center to George Mason University in Fairfax, Virginia. Lavoie and Jack High made the move with Fink to GMU, and, along with Karen Vaughn, founded the Center for the Study of Market Processes.

In addition to the four core faculty members, Tom DiLorenzo was also a young faculty member in the economics department at George Mason University. DiLorenzo was a recent graduate of the doctoral program at Virginia Tech and a scholar of Public Choice economics and industrial organization. He was interested in Austrian ideas such as competition as a process and quite sympathetic to the general philosophical thrust of the Austrian school.

At first, Fink's center was intended as an undergraduate training center from which young graduates could pursue their doctoral studies at either NYU or other top research universities or go on to careers in law or public policy. Fink's program was quite successful: Tyler Cowen went on to Harvard to receive his Ph.D., Dan Klein received his Ph.D. from NYU, and Kathy Curtis went on to law school where she excelled. But something happened shortly after the Center moved to GMU that would significantly change its purpose.

James Buchanan, the leader of the Virginia School of Political Economy who, along with Gordon Tullock, pioneered public choice economics, had grown restless at Virginia Tech. Buchanan was also sympathetic to Austrian economics and shared with Austrians many of the same concerns (for example, Buchanan forged a consistently subjectivist notion of opportunity cost in his 1969 monograph, *Cost and Choice*, and further promoted subjective cost theory in a book edited with G.F. Thirlby, *LSE Essays on Cost* [1973]). Vaughn (who would become department chair in the fall of 1982) seized another entrepreneurial opportunity by luring Buchanan, Tullock and their Center for Study of Public Choice to George Mason University in the spring of 1982. George Johnson, GMU's maverick president, jumped at the chance to grab a group of scholars of the caliber of Buchanan and Tullock, realizing Mason's fledgling Ph.D. program would be instantly successful with the addition of Buchanan, Tullock, and the Public Choice Center entourage.

GMU indeed became a major American research center for public choice and Austrian economics by 1983. In addition to Buchanan and Tullock, Kenneth Boulding also arrived at George Mason University as a Visiting Robinson Professor. Yet another boost for Austrian graduate students: Boulding's tutor was Lionel Robbins, and like Buchanan, he was a student of Frank Knight (in fact, Boulding made his professional debut in defending Austrian capital theory against Knight's criticisms). Moreover, Boulding was deeply sympathetic to thorough-going subjectivism and questions of the role of knowledge in sustaining social coordination (as is evident in his book, *The Image* (1956)). If ever there was an ideal teacher and role model for young Ph.D. students, then Boulding was it. His sparkling sense of humor matched his passion for peaceful cooperation among people and nations. He invited students to his house for cookies and cider, and to read from Adam Smith, and went to lunch to talk about economics, life and nuclear disarmament, and even joined the students in an informal readings group on general systems theory.

What was most impressive about Buchanan, Tullock and Boulding was their genuine love of ideas and the encouragement they gave students to pursue ideas wherever they may lead. Their presence at GMU during our time there enhanced the educational experience immeasurably. And the fact that "The Great Unwashed" – Buchanan – was awarded the Nobel Prize in 1986 added to our sense that we were at the right place at the right time.

Fink transformed the Center for the Study of Market Processes into a graduate research and teaching program and actively recruited new doctoral students. Two formal courses in the Austrian theory of the market process were created, and a field in Austrian economics was established – the first at any university in the US or UK. In addition, a weekly colloquium for the presentation of Austrian research brought in visitors and allowed graduate students to test out their ideas. A working paper series was established, and *Market Process*, under the editorship of Don Lavoie, and the managing editorship of a series of graduate students, was established as a combination newsletter for the Center, forum for new ideas, and quasi-journal for graduate students in Austrian economics.

Fink hoped that the Center's graduate students would accomplish three things (in addition, of course, to passing their field exams and completing their dissertations): first, teach a course on their own; second, present a paper at a professional meeting; and third, publish a paper in a professional journal. These were not idle wishes. The young Center faculty devoted resources (time and money) to make sure that every student accomplished those tasks. In the summer or during the year, students enjoyed many opportunities beyond their first year to teach, if they desired. Writing workshops were conducted in the summer so students would learn how to write for the professional journals, or do policy studies for the think tanks in Washington. The

Center often arranged research assistantships for the summer so students could pursue their studies and participate in these extra programs, such as the writing workshop. Conference fees and travel expenses were paid for by the Center for any student participating on a session at a professional meeting; submission fees for journal articles were often picked up by the Center. There was simply no excuse for the students not to get work done and meet Fink's expectations, and we think that for the most part all of our contemporaries met those challenges.

Although ideological overtones were still present, Center faculty were committed to the intellectual development of their students. George Mason University was in many aspects an ideal place for this. We would not deny that the unashamed commitment to Austrian economics, mixed with a strong ideological kinship among the students, created an atmosphere of excitement that would be hard to match. (Accidentally entering a room full of students embroiled in a debate about fine points of economic theory, Gordon Tullock once sneered that "You Austrians are truly nuts." Yet, as he turned and walked out the door, we heard him mumble "But at least you're enthusiastic.") Students ran study groups to help with the core courses in standard theory, reading groups in the classics of Austrian economics, reading groups in current neoclassical journal articles, and so on. Since classes met during the evenings, and our research assignments for professors were during the day (20 hours per week), Austrian students spent literally the whole day, and much of the night, engaged in serious study as well as bull sessions over such issues as the possibility of anarcho-capitalism versus libertarian socialism versus minimal statism. Within this practically anarchic intellectual arena, students working in Austrian economics could challenge not only the neoclassical mainstream, but traditional Austrians economics as well. (Boulding, for example, remarked that he enjoyed George Mason University because it seemed to have "no tradition, and therefore everything is up for grabs!") Young Austrian doctoral students would be just as likely to debate the epistemological status of Edmund Husserl's transcendental *a priori* as they would the theoretical consistency of Franklin Fisher's modelling of money in general equilibrium. Where else would one find a graduate economics student with the latest article by Joseph Stiglitz sandwiched in a dog-eared copy of Hans-Georg Gadamer's *Truth and Method*? Most of us thought that this was a natural graduate economics environment: David Colander and Arjo Klamer (who had interviewed us for their *The Making of an Economist* research), told us a very different story about orthodox graduate study in economics.

In addition to High and Lavoie, George Selgin and Don Boudreaux joined the Center in 1986. Selgin was working on his book, *The Theory of Free Banking*, which broke new ground in the examination of the economic operation of competitive note issue. His command of the history of monetary thought was truly impressive, and though he demanded rigorous argument from the students, he was always ready to work with them and discuss their ideas. He was a great intellectual asset to the program. Boudreaux was working in the area of industrial organization and the theory of the firm. His research sought to synthesize Austrian ideas with the economics of organization literature that Oliver Williamson developed. Like Selgin, he was quite open to working with the students and discussing their ideas, and was vital to the program. In addition to Selgin and Boudreaux, Tyler Cowen visited the Center as a post-doctoral fellow after completing his degree at Harvard, then later joined the department faculty. Cowen was simply interested in everything and worked with the students freely.

Visitors flowed into the Center. Both John Egger and Sudha Shenoy taught courses in Austrian economics to GMU graduate students. Leland Yeager also visited the Center, and Viktor Vanberg was a visiting scholar at the Center before moving to the Public Choice Center the following year. A long list of exciting, non-mainstream scholars, including Brian Loasby, Jack Wiseman, Ulrich Witt, Don McCloskey, Arjo Klamer, Richard Ebeling, Gary Madison, and Barry Smith, cheerfully accepted invitations to present their latest research before Center faculty and students. Seminar papers by Israel Kirzner and W.H. Hutt also stand out as memorable. And Ludwig Lachmann's annual seminar presentation was always an eagerly awaited special event.

Besides the social environment of GMU, it was generally an exciting time to work in Austrian economics, for finally a stream of research monographs was emerging from the pens of a new generation of Austrian economists and being published by leading university and academic presses. Dom Armentano's *Antitrust and Monopoly* was published in 1982, Bruce Caldwell's *Beyond Positivism* (which contained a rather lengthy discussion of the Austrians) was published in 1983, Lawrence White's *Free Banking in Britain* was published in 1984, Don Lavoie's *Rivalry and Central Planning* and *National Economic Planning: What is Left?* were published in 1985, and Gerald O'Driscoll and Mario Rizzo's *The Economics of Time and Ignorance* was published in 1985. In addition, Richard Langlois published a collection of essays in 1986, *Economics as a Process*, which promoted a synthesis of Austrian economics, transaction cost economics, positive political economy and the new economic history. George Selgin's book *The Theory of Free Banking* was published in 1988. Jack High revised his doctoral thesis throughout the 1980s to take into account new developments in market adjustment theory, and published *Maximizing, Action and Market Adjustment* in 1990, while Karen Vaughn's *Austrian Economics in America: The Migration of a Tradition* recently appeared in 1994.

Also, a new generation of students of these "students" emerged with doctoral dissertations written in the 1980s at NYU, GMU or Auburn which were transformed into published books and articles in the scholarly journals in the 1990s. Esteban Thomsen published *Prices and Knowledge* (1992). Roy Cordato published *Externalities and Welfare Economics in an Open Ended Universe* (1992). Steve Horwitz published *Monetary Evolution, Free Banking and Economic Order* (1992). Mark Thornton published *The Economics of Prohibition* (1992). Boettke published *The Political Economy of Soviet Socialism: The Formative Years, 1918–1928* (1990) and *Why Perestroika Failed: The Politics and Economics of Socialist Transformation* (1993). Prychitko published *Marxism and Workers' Self-Management* (1991). In addition, articles, comments and reviews by these last two generations of Austrian economists have appeared in professional journals such as *The Southern Economic Journal, The Journal of Economic Perspectives, Journal of the History of Economic Thought, Journal of Institutional and Theoretical Economics, Public Choice, Methodus, Global Economic Policy, Cultural Dynamics, Review of Social Economy, History of Political Economy, Research in the History of Economic Thought and Methodology*, and even *The American Economic Review* and *Journal of Political Economy*. Clearly, Austrian economics experienced tremendous growth in the 1980s, not just in numbers but in thought.

Much of this work is written by individuals who were products of the George Mason program and the Center for the Study of Market Processes. Looking back, we believe that the internal atmosphere of the Center and the overall environment at the university provided fertile ground for the next generation of Austrian economists to ask fundamental questions – a rare event. *Market Process* was one of the places where they could submit their conjectures to community review and rebuttal. *Market Process* emerged from a newsletter with book-review essays and grew to become a forum for original research. We have selected a range of articles that represent the breadth of issues discussed in its pages and its spirit from when it started in 1983 to its final issue in 1990. This was a period of intense inquisitiveness among young Austrians. Gone from contemporary Austrian economics were any notions of being part of the received orthodoxy. Gone were any notions that what was needed was simply a better spin on the traditional Austrian doctrine. It was time simply to try to understand market processes and social institutions independently of where that might lead. Fundamental questions in the methodology and method of economics were asked. New avenues of empirical research were explored. New opportunities in the mainstream economics literature were tested.

The issues discussed in the pages of *Market Process* reflect the concerns and directions of contemporary Austrian economics. Much of what one sees here is the first statement of lines of research that many individuals are now pursuing, and which should yield significant dividends in the near future in terms of a better understanding of market processes and social institutions.

Not since the 1920s had young economists been offered the opportunity to gather together to pursue questions and develop arguments in the Austrian tradition within such a nurturing environment. We hope that this collection conveys the spirit of open inquiry that characterized this period, and continues to characterize contemporary Austrian economics.

NOTES

1. Keynes was highly adept at the art of controversy during this debate: he did not really address Hayek's theoretical work, but instead he challenged Hayek's policy conclusions through a critique of the theoretical work of A.C. Pigou. In this manner, Keynes avoided addressing the fine points in Hayek's analysis of money and capital. If Hayek's policy conclusions could be wedded to a weaker theoretical structure, then Keynes could dismiss Hayek's non-interventionist policy on the basis of poorly informed theory.
2. In this regard it may be illuminating to consider the correspondence between Mises and Hayek during the period from 1939 to 1946. It is quite clear from Mises's letters that he sees the "progressive" views of Veblen–Hansen and Laski–Keynes as the major threat to economic thinking and policy in the West. In a letter dated 16 December 1941, for example, Mises wrote that he had begun work on a volume "critically dealing with the whole complex of 'anti-orthodox' doctrines and their consequences." And, in the same letter, Mises refers to an Alvin Hansen lecture he recently attended by saying that two centuries of economic theory could not dispose of the mercantilist prejudices contained in Hansen's analysis. Again, viewing himself as part of an embattled orthodox minority, Mises, in a letter dated 27 July 1944, states that he has taken to asking himself of what use is economic science, since the progressive intellectual culture disregards its teachings. Clearly Mises and (from the sense of the letters) Hayek considered themselves the pallbearers of a social and public policy wisdom that was being buried under a pile of monographs written by progressive intellectuals ignorant of the main teachings of economic science. See the Hayek Collection, Correspondence, Box 38, file 24, Hoover Archives, Stanford University. Hayek never reviewed the *General Theory*, but his reaction to that work at the time is contained in *The Pure Theory of Capital* (1941). Just as Mises had, Hayek mistakenly interpreted Keynes's analysis as not worthy of serious scientific criticism.
3. Lerner would go so far as to describe Marxism as the economics of capitalism and neoclassical theory as the economics of socialism.
4. There is no doubt that Mises was treated rather poorly by the American academic establishment. But this assessment needs to be tempered a bit by the circumstances surrounding Mises. First, in correspondence with Hayek, Mises suggests that a position for him is available at the New School for Social Research, but he does not want to take it if he can avoid it (letter dated 27 October 1940). In that same letter, Mises highlights that the real problem in finding an acceptable position is his advanced age. Also, in a letter dated 22 December 1940, Mises informs Hayek that he had already given lectures at Harvard, Fletcher School, Princeton, Columbia and NYU, and that he had decided to accept a position at NBER where he would have time to work on his own projects full-time. Hayek collection, Box 38, file 24, Hoover Archives, Stanford University.
5. So that we do not give the wrong impression, it should be pointed out that like Mises, Hayek's salary at Chicago was paid through outside foundations. There is simply no doubt that the academic culture was biased against individuals like Mises and Hayek. But the bias is not the only causal factor in their treatment.
6. This, for Mises, was a major weakness of the project from the beginning. See his criticism of the plan for the Mont Pelerin Society dated 31 December 1946. Hayek Correspondence, Box 38, file 24, Hoover Archives, Stanford University. On the founding of the Mont

Pélèrin Society see Hayek, "Opening Address to a Conference at Mont Pelerin," in *The Fortunes of Liberalism*, Peter Klein, ed., *The Collected Works of F.A. Hayek*, vol. 4 (Chicago: University of Chicago Press, 1992): 237–48.

7. It is true that the Chicago School was strategically located at a leading university. But their line of argument could not overthrow the orthodoxy of interventionist thinking. Certainly, Chicago School economists could pick holes in the mainstream Keynesian synthesis or demonstrate the empirical fallacies behind both Keynesian interpretations of the macroeconomy and the standard literature on the microeconomic inefficiency of free markets. The Chicago School, however, did not systematically challenge the neoclassical model: Chicago economists chose to play on the same (formal) turf as the rest of the profession. Even Friedman acknowledged that the debate between Chicago and Cambridge (Mass.) was empirical, not theoretical. The Chicago School headed by Friedman and Stigler was as vulnerable to "school desolation" as the Austrian School was a generation before, when they erroneously considered themselves part of the neoclassical orthodoxy. The contemporary trend in economic thinking toward interventionist policy found in the work of Stiglitz (information economics), Summers (new Keynesian economics), and Krugman (new international trade theory) simply can not be countered with the arguments associated with Chicago School economics. For a discussion of this see Boettke, "The Trend of Economic Thinking" (unpublished manuscript, Hoover Institution, 1993).
8. See, for example, Benjamin Klein, "Competition and Entrepreneurship: book review," *Journal of Political Economy*, 82 (December 1975): 1305–9.
9. Hayek and Lachmann actively corresponded throughout the 1950s and 1960s on issues ranging from methodology and capital theory to public policy. They agreed that the task of the social sciences was to view institutions and social practices as vehicles for the transmission of knowledge. Their correspondence mainly deals with how one approaches such a study and what existing literature they could harness to build the argument. See Hayek Collection, Box 32, file 2, Hoover Archives, Stanford University.
10. A comprehensive history of modern Austrian economics would need to address the founding of the Foundation for Economic Education, Center for Libertarian Studies, Ludwig von Mises Institute, the Carl Menger Institute (Vienna, Austria), the establishment of the CATO Institute and other public policy "think tanks," the development of new graduate and undergraduate programs at Auburn University, University of Nevada at Las Vegas, California State University at Hayward, Grove City College, Hillsdale College, Loyola University (New Orleans), St. Lawrence University and SUNY-Oswego, and the emergence of publications such as *Journal of Libertarian Studies*, *Review of Austrian Economics*, *Austrian Economics Newsletter*, *Critical Review*, and *Advances in Austrian Economics*, etc. We do not offer such a history. The best history to date of the Austrian revival is found in Karen Vaughn, *Austrian Economics in America: The Migration of a Tradition* (Cambridge University Press, 1994).

PART ONE

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