This book examines the development of the ideas of the new Austrian school from its beginnings in Vienna in the 1870s to the present. The modern Austrian school is generally known for holding rigorous but heterodox views on a variety of issues: subjectivism, entrepreneurship, market processes, and the use of mathematics in economic theory. Professor Vaughn traces the origin of these views and shows how they form aspects of a largely coherent theoretical perspective organized around the problem of time and ignorance in human affairs. She demonstrates how concern for the notions of time and ignorance permeates Carl Menger’s original works, primarily in his descriptions of market processes and in his linking of economic growth to the generation and dissemination of knowledge in society. The recognition of the importance of time and ignorance was the key that permitted other Austrians such as Ludwig von Mises and Friedrich Hayek to recognize the fatal flaws in central economic planning, evidenced as early as the 1930s, brought about by limited knowledge and time lags.

Despite current controversy, Professor Vaughn suggests that modern Austrian economics has begun to articulate a promising alternative research program that examines the implications of real time and ineradicable ignorance to economic theory and methodology. For anyone who is skeptical of the increasing formalism of modern economic theory, this cogent account of the Austrian approach should prove a refreshing change.
Historical Perspectives on Modern Economics

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Austrian economics in America
The migration of a tradition

Karen I. Vaughn
George Mason University
To Garry and Jessica, who make everything matter
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Preface

Twenty years have gone by since I first became seriously interested in Austrian economics. Although as an undergraduate in the early sixties I had read some books by Ludwig von Mises and had met Murray Rothbard and various New York Austrians and libertarians, my real attraction in those days was to the politics of the Austrians and not so much to their economics, of which I knew little. My real initiation into the economics of the Austrian tradition did not take place until 1974 at a conference on Austrian economics held in South Royalton, Vermont. Unbeknownst to me at the time, that conference was a decisive event in bringing about a revival of interest in the Austrian school among contemporary economists. For me, however, it was primarily an experience that raised a number of questions in my mind about economics in general and Austrian economics in particular that were not easily answered.

I found Austrian arguments intriguing, but elusive. I agreed with many of the sentiments expressed, but I could not quite figure out why I found them so appealing. I had first fallen in love with microeconomic theory as an undergraduate and had an abiding faith that it was sufficient to answer all important questions about the market (indeed, about life itself!), yet I also found Austrian critiques of parts of the corpus of microeconomics compelling. What was Austrian economics really about? How did it fit with the economics I had been taught? Could I believe both at once?

The question, “What is Austrian economics?” continued to haunt me long after the conference at South Royalton was over. I made my first attempt to answer that question more than a decade ago when my colleague Laurence Moss and I attempted to write a review article on Austrian economics for the *Journal of Economic Literature*. Despite the fact that we had the blessings of the editor and all good intentions, our project never came to completion largely because we could not agree on how to delimit the literature we were supposed to survey. Was Austrian economics simply the sum total of all the writings of everyone who was an Austrian? But there was such heterogeneity in this group that one could hardly find convincing links between, say, Morgenstern’s game theory and Kirzner’s theory of entrepreneurship to place them in the same camp. Was Austrian economics a particular set of ideas that challenged mainstream econom-
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In that case the ideas the Austrians claimed as their own were often espoused by other, non-Austrian economists. My coauthor and I gave up in confusion and went on to other things.

I never forgot the project, however, and for the past decade, as a side issue to my other pursuits, I continued my search for the real Austrian economics. I taught a course in Austrian economics for five straight years where one of the overriding aims, besides getting students to think critically about economics – any economics – was to help me answer my unanswered question. I read avidly in the contemporary Austrian literature, I wrote essays on Menger and on Hayek, I attended seminars in Austrian economics, and I even helped to establish an Austrian presence at George Mason University through participation in the Center for the Study of Market Processes.

During all this time, although I taught the subject and worked in the area, I resisted calling myself an “Austrian,” because I could not give myself a label I did not fully understand. I found myself, as I often do, arguing both sides of the fence, depending on the nature of the adversary. In neoclassical circles, I defended the Austrian position, but with Austrians I pushed them to consider neoclassical arguments. This behavior did not necessarily win me many friends and, not surprisingly, kept me perpetually on the fringes of Austrian economics despite my obvious sympathies with those who did call themselves Austrians.

This book is finally my systematic attempt to answer that question that first plagued me almost two decades ago. I think I have finally arrived at a satisfying answer to my question by acknowledging that there really is as yet no “Austrian economics” where that means a fully articulated and importantly distinct economics apart from the neoclassical paradigm. There are Austrian insights and theories that supplement contemporary economics, and there are Austrian insights and theories that tend to undercut it. At its best, Austrian economics contains rumblings of a revolution that would in fact establish a new and different Austrian paradigm, but the ideas and their implications are still in flux.

The current flux in Austrian debate largely dictated an indirect approach to unraveling its subtleties. Instead of trying to lay out all the propositions of Austrian economics in a systematic manner, I have attempted to explain the essence of Austrian economics by recounting its history. More to the point, I try to explain modern Austrian economics by retelling the history of the modern Austrian school from the perspective of its current debates. Because of this specific focus, this book is not meant to be an exhaustive history of the development and impact of Austrian ideas from 1871 to the present. Such a book would be several times the length of this one and unnecessary for my specific purpose, which is to
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understand how a very small, very vocal, feisty and dedicated subset of the economics profession that currently identify with the Austrian school came to be where they are and to argue as they do.

Some may question the relevance of examining the origins of a controversy in order to either understand it or resolve it. As a toiler in the vineyards of a subdiscipline that has probably the lowest prestige rating in economics – the history of economic thought – I am all too familiar with this attitude. Who cares what Menger, or even Mises or Hayek said? All we should care about is whether the ideas currently under debate are right or wrong. My answer to that is twofold.

First, I examine the history of the debate because it is interesting for its own sake. The history of economic thought is interesting because it is the history of what is particularly human about us – our ideas, our beliefs, our ways of structuring the world around us. Economists are not generally impressed by claims that something is done just for the fun of it, however. They want to know what the underlying payoff is. In this case studying the history of the modern Austrian school has enormous instrumental value. In fact, it would be impossible fully to understand current Austrian ideas and debates without delving deep into the history of the Austrian tradition for the simple reason that current Austrians far more than their neoclassical contemporaries look to the whole one-hundred-year-long tradition for inspiration and enlightenment.

Most modern Austrians read Menger not as a historical curiosity the way a modern neoclassical economist might read Jevons, for example, but as a source of theoretical inspiration and enlightenment. Although separated by over a century, Menger, Hayek, Mises, Lachmann, and Kirzner are all part of the contemporary conversation about the meaning and substance of Austrian economics. They are all part of what Mises called the “real present,” the span of time relevant for formulating a plan and carrying out the plan. We can define the intellectual real present as the time in which all participants are thought to contribute to the solving of some intellectual problem. For modern economists, the intellectual real present may be no more than a year or two. For Austrians, it is over a century in length.

For Austrians, the reason that the real present is so much longer than for other contemporary economists is that they do not believe, as Stigler once argued (1969), that all the insights of their chronological predecessors have been fully appreciated or incorporated into current discussion. In fact, they generally argue that neoclassical economics almost from its very inception traveled down the wrong track and left out important theoretical considerations that were part of the Austrian tradition. By studying Menger, Wieser, Mises, Hayek, and all the other
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stars in the Austrian firmament, modern Austrians believe they can find insights into the construction of a better economics than is currently practiced by the “mainstream.” Hence the need to examine the origin, progress, discovery, and rediscovery of the ideas that form the leitmotif of the Austrian tradition.

I examine the history of the modern Austrian school, then, because the history is also the current literature from which modern Austrians draw. But the purpose of looking backward is to get our bearings on how to proceed forward. In trying to establish what the special contributions of the Austrian tradition have been we get glimmers of what it also could be.

In the writing of this book, I have come to believe that the issues raised by Austrians and the critiques of contemporary economics that have come from Austrian pens may well have within them the seeds of a genuine scientific revolution. The full nature of this revolution is but dimly perceived right now, but all the necessary elements are there: An unwillingness to abstract from time and ignorance, an insistence on the centrality of market processes, a renewed appreciation of economic institutions in market orders, and an increased willingness to understand man as both an individual and a social creature are all elements in contemporary Austrian debate that both build on the full sweep of the Austrian tradition and point the way forward to a new way of organizing economic theory. This book is an attempt to clear away the underbrush so that the hoped-for revolution can have more hospitable soil in which to take root.
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Although the writing of this book took less than two years, the thinking and planning are the product of a decade. During that time, I profited from innumerable conversations, seminars, and conferences, many of which my conscious (if not my unconscious) mind has forgotten. Of the many colleagues and friends whose ideas have inspired and influenced me along the way, I can name only a few.

First, I thank Laurence Moss, my erstwhile coauthor on a project on Austrian economics now long forgotten, whose many disagreements with me as well as his agreements helped me to see the problem I wanted to address.

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