

***Austrian Economics in America: The Migration of a Tradition.***

By Karen I. Vaughn. *Historical Perspectives on Modern Economics*.

New York and Melbourne: Cambridge University Press, 1994.

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**S**ome books are distinguished by inaccuracies, stilted or idiosyncratic interpretations or by a simple lack of scholarship. These are simply forgettable with “the only bad review being only an obituary.” Others are this and plenty more—they do actual and discernible damage to the subject they seek to treat. Such is the case with this book that seeks to “clear away the underbrush so that the hoped-for revolution [an Austrian revolution] can have a more hospitable soil in which to take root.” Not only does it not clear “the underbrush” (a silly and inapt metaphor), Vaughn’s book shows little appreciation for the development of Austrian economics in the United States or anywhere else, or for its present or future status. Austrian economics fortunately is made of sterner stuff and will survive this treatment. Vaughn does serious damage to fair interpretation nonetheless. In my view (and I am more a sympathizer than a card-carrying Austrian), her stance, if it is really taken seriously, builds a catafalque for this critically important area of economic thought.

The title of this book, if not the content, suggests three possibly important issues that Vaughn might have considered. First, what is the nature of the tradition, history, and economic theory of the Austrian school? Second, does Austrian economics stand as a separate and coherent theory today? Finally, has an expanded neoclassical analysis paralleled or “absorbed” Austrian notions of ignorance,

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time, the entrepreneur, and knowledge requirements? This book fails to contribute in any meaningful way to any of these matters.

The historiography of Austrian thought and the “tradition” of which Professor Vaughn speaks is reduced to a few well-known figures and ideas (chapters 2–5) flavored only with Vaughn’s stilted interpretations. I find both the older and the more modern writers of the Austrian school to be critically misrepresented in this account.

Consider the older tradition, whose font was the triumvirate of Carl Menger, Friedrich von Wieser, and Eugen von Böhm-Bawerk. Vaughn devotes two chapters to Menger and “Mengerian themes” (found in Hayek in particular) in a summary of well-known literature. Her treatment boils down to an assertion that Menger’s themes of knowledge, ignorance, time, and process were the *singular* essences of Austrian economics. Wieser and Böhm-Bawerk are depicted as not having “a Mengerian vision” (p. 7). This is utter nonsense. Vaughn believes that Menger’s “themes” were resurrected in the socialist calculation debates between Ludwig von Mises and the “neoclassicals.” She should consider Wieser’s *Natural Value*, his *Social Economics*, and the writings of Böhm-Bawerk more closely.

In *Natural Value* (1883), Wieser outlines and then destroys the theoretical case for socialism by directly confronting the argument that profits and interests are necessary payments but not necessary receipts (the socialist argument). I further suggest that her dismissal of Wieser (see pp. 33–35) as a closet neoclassical is preposterous when one reads his *Social Economics* (completed in 1914 but not published until after World War I). In it Wieser made giant strides toward the development of a number of contemporary Austrian themes, including (a) the emergence of institutions as the result of spontaneous order; (b) the depiction of competition as a rivalrous process opposed to (simply) a static model; and (c) the key role of the entrepreneur in the economic process. The integration of economic theory into a theory of institutional change, a clear extension of Menger’s work on the development of money, is perhaps the most

important of these genuine achievements, especially given the concerns of some contemporary Austrian and neo-institutional economists.<sup>1</sup>

The dismissal of Wieser and Böhm-Bawerk as Austrians of the older school is, unfortunately, only one example of Vaughn's serious lapse of accuracy and incompleteness.<sup>2</sup> Her spotty and sparse attention to the Austrian tradition in America is an even more glaring and disastrous omission. While Mises, who was Böhm-Bawerk's (not Menger's) student, and Hayek get some summary treatment, it is as if economists such as Joseph Schumpeter, Gottfried Haberler, Oskar Morgenstern, Fritz Machlup, and Paul Rosenstein-Rodan did not even exist, let alone constitute an inextricable part of the "tradition." A footnote or two (see p. 36 n. 22) and a blanket dismissal of these game players as "neoclassical sympathizers" just doesn't get to the core of these critical contributions to the Austrian way of thinking.

I know, for example, that Oskar Morgenstern considered himself, first, last, and always, a direct descendant of and a worker in the fields of the Austrian tradition. In 1969, when he visited Texas A&M for several long stints, Morgenstern lectured to my "thought" classes on Austrian economics and its development in America. My yellowing notes reveal that Morgenstern had a clear grounding in Mengerian principles and that grounding was a *vital* part of Morgenstern's research at the time (on stock market prices, I believe). He had my class reading his *Accuracy of Economic Observations*, written in 1950 (second edition 1963). While purporting to recount "the Austrian tradition,"

<sup>1</sup>Böhm-Bawerk's extension of Menger's subjective exchange theory and his Mengerian discussion of the process of exchange is yet another obvious lapse in Vaughn's account.

<sup>2</sup>Her interpretation of the *methodenstreit* ignores the impact of the iron-fisted system of university administration in Germany, although Vaughn provides the shallow statement that Schmoller "managed to keep Mengerians out of academic positions in Germany" (p. 36) without further explanation. Where, in addition, is an analysis of early Austrian influences in England at the hands of William Smart (see his *Theory of Value*, 1891) and others in Vaughn's account of the "migration of a tradition"?

Vaughn virtually ignores the work which most clearly explains why the all-too-frequent misuse of econometrics should be taken with a grain of salt—a very modern Austrian predilection.

Vaughn's non-treatment of serious scholars whose works flow into both Austrian and non-Austrian mainstreams reflects a more basic problem in her entire treatment. Her treatment is itself based on an idiosyncratic interpretation of what Austrian economics or neo-classical economics (for that matter) is.<sup>3</sup> The limited perspective is furthered by her very interpretation of Austrian economics as essentially (only?) the economics of time and ignorance. Great attention is lavished (pp. 92–178) on this *idée fixe* which occupies almost half of the book. At the risk of trite paraphrase, this view may be summarized: Since we cannot know what we cannot know (the future), and since econometrics is of no help, predictive models are useless or are "severely limited." This, at least to this reviewer's mind, is the core problem with the book, and the reason why it damages the topic it seeks to venerate.

Ludwig Lachmann and his coven, including the hermeneuticians, have driven a wing of the Austrian movement to an anti-scientific theological view of "what Austrian economics is." Radical views of knowledge and knowledge requirements force a retreat to deconstructive anti-science with which Vaughn flirts. (On this point I am in full agreement with the late Professor Murray Rothbard.) Pursuit of this Holy Grail will leave Austrian economics and any other branch of thought that embraces it exactly nowhere.<sup>4</sup> Hermeneutics is, root and branch, a surrealist stupidity reminiscent of the Roman Church's

<sup>3</sup>On page 9 of her book, for example, Vaughn virtually equates neoclassical economics with constrained maximization. She also has trouble with possible differences between "mainstream economics" and "neoclassical economics." But brushing aside the differences, she alleges that these constitute a "program that explains all human action as variations on constrained maximization where preferences are considered to be given, well-ordered, and stable, and where there is widespread knowledge of constraints." An opposing view is contained in recent works by Douglas North, Gary Becker, and William Baumol.

attacks on science or the fundamentalist attack on biology. There is no “middle-of-the-road” in this war that does not, of necessity, spit on science and scientific principles. Perhaps the romance with hermeneutics or its variations might end in the creation of a magic decoder ring.<sup>5</sup>

Large chunks of this book are devoted to sterile and unnecessary attempts on the part of some Austrians, including the author, to “find themselves” and define a new paradigm. It would be facile to dismiss this book as a patchy-idiosyncratic summary of some Austrian ideas, because the errors and lapses go much deeper than that. Even though there is little new in the book, the interpretation she provides is a call to *nihilism*. From that undiscovered country, as Hamlet noted in another context, no traveler returns. When the direction of economic activity cannot be predicted or predicated upon some solid behavioral responses, markets do not matter, and their defense is irrelevant much as they are at the hands of the rational mechanics that the Austrians so fondly (and correctly) assail.

Fortunately, Austrian endeavors and prospects are more solid and promising than Vaughn proposes. Rather than simply being the “economics of time and ignorance,” Austrian concerns bridge and intimately connect with a number of areas with a complexity that belies

<sup>4</sup>Vaughn does not note that these movements are taking place elsewhere across the spectrum of contemporary economics. A contemporary “Veblenian” approach is taken, for example, in recent works by Malcolm Rutherford and Lars Magnusson in which radical knowledge requirements demand a serious modification or negation of predictive economic theory. It is equally non-scientific in these manifestations.

<sup>5</sup>Her proclivities for moral theology are revealed when she opines that a role of Austrian economics (and Austrian economists) might be to provide a “philosophical conscience of the economics profession.” Continuing, she notes that “this may not be a bad thing: Lord knows, economics needs some kind of conscience, but it is also true that most people are not particularly fond of having a conscience, despite the fact that they may be better off with one than without” (p. 167). Does Vaughn pretend to know what conscience is or what matters should be matters of conscience? Perhaps economists are not particularly fond of having half-baked theology served up to them either.

this book's simplistic treatment. Indeed, other reviews of this book (by Austrians) have noted some of these areas. Fortunately, it represents a small, angst-ridden wing of the Austrian movement—those with a penchant for internecine methodological warfare—and not its more vital quarters. A number of young Austrians really *do* economics and interesting economics at that. Austrian-flavored analyses of monetary theory, macroeconomic and growth theory, antitrust, and law and economics are being promulgated by writers such as George Selgin, Larry White and Don Boudreaux, to mention only a few. And Israel Kirzner continues to enlarge our knowledge and analysis of the role of the entrepreneur. Perhaps someday soon, an Austrian will provide a work that reveals the real complexity of the area without the Heraclitan highjinks and theological overtones that pervade this treatment.

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