

The Market Process

Advanced Studies in Political Economy

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Essays in Contemporary Austrian Economics

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For our friends at CSMP
(now known as the Mercatus Center)

Bliss was it in that dawn to be alive, / But to be young was very heaven!
(Wordsworth)

Preface to the Mercatus Center Edition

We are thrilled to see this work reprinted and made available in a relatively inexpensive form for students and scholars of the Austrian school of economics. This book captures, in our minds at least, the dawning of a new era in the history of this school of thought that was only an inkling at the time when the book was first published.

In retrospect, it is easy to trace the first, second, third, and fourth generations of Austrian school economists from 1870 to 1930 in Vienna, Austria. We have the founder Carl Menger, then Eugen von Böhm-Bawerk and Friedrich von Wieser, then Ludwig von Mises, Hans Mayer, and Joseph Schumpeter, and then finally F. A. Hayek, Fritz Machlup, Oskar Morgenstern, and Gottfried Haberler, all located at the University of Vienna and active in the Viennese scholarly circles that constituted academic life at that time. There were other scholars active during those years, of course, but those are the main thinkers that formed the Austrian school of economics. Each of these scholars, in his own way, made major contributions to the scientific literature in economics as well as internationally recognized scholarly contributions to the literature in political economy and social philosophy. Things got murkier, however, once the Austrian school of economics left the shores of Europe and migrated to the United States.

Indeed, the Austrian school of economics did not have a firm institutional foundation in an elite academic environment in America during the 1940–1970 period. While Mises was at New York University (NYU) and Hayek was at the University of Chicago (developing ideas in disciplines outside of economics proper) during the majority of this time, neither was actively engaged with the ongoing scientific enterprise of the economics profession. They both trained PhD students at their respective schools, but not in the same way that others at NYU or the University of Chicago had—let alone like at MIT and Harvard University. Machlup went on to hold a professorship at Princeton University and became president of the American Economic Association, and his influence is felt throughout the economics profession to this day. But while Machlup was always proud of his roots in the Austrian school, he aimed to integrate and assimilate into the mainstream economics profession as thoroughly and quickly as possible upon his migration to the United States. This is also the path followed by Morgenstern at Princeton and Haberler at Harvard.

Three names emerged, however, in the 1950s in the United States to form a new generation of Austrian economists: Murray Rothbard, Hans Sennholz, and Israel Kirzner. While Rothbard made original contributions to the science of economics, his main influence was in the fields of political economy and social philosophy. He also became the main intellectual leader and movement agitator for the then fledgling American libertarian movement, a role that often meant his career as a scholar and teacher took a back seat to his political and movement-building activities. Sennholz wrote on monetary economics yet did not write for his scientific peers. He wrote instead for the general public (both young and old) in the form of financial journalism and essays of persuasion. His primary impact, however, was teaching, having taught undergraduate students at a small liberal arts college in rural Pennsylvania—Grove City College—for 30 years. Of the three, only Kirzner wrote for his scientific and scholarly peers and was in a position to train a new generation of PhD students in economics at NYU. But even in Kirzner's case, his efforts were focused more on writing books and monographs rather than journal articles, and the economics profession had decidedly become a culture of journal publications, rather than of books, by the 1960s. Kirzner was out of step with the dominant trends in the economics profession, not just intellectually but in his sociological approach to scholarly practice.

While these individuals were decidedly the next generation of Austrian school economists, their impact was not, at least not at first, in advancing scientific economics research in the mediums and methods used by the discipline at the time. Thus, the research program of the Austrian school of economics as developed by Mises and Hayek in the 1930s and 1940s essentially stalled owing to the small number of curious and eager young minds attracted to the school in a scientific and scholarly sense and a lack of an intellectual infrastructure and community to train and forge a new generation of economists. Progress in science and scholarship require a constant inflow of fresh new ideas from talented and curious entrants into the field who are willing to challenge established ideas, take old ideas in new directions, or overturn old ideas completely. Stasis in science and scholarship means stagnation and the eventual death of certain ideas, whether about methodology, method, or practical application. The Austrian school of economics in America was staring at this stark reality by the 1960s.

This situation would radically change, however, in the late 1960s and early 1970s. Many eager young minds were attracted to the political economy and social philosophy writings of Rothbard as the horrors of the Vietnam War grew in the consciousnesses of college students. Further, the failures of the Great Society programs of President Lyndon Johnson were on full display in the turmoil in American cities, and an economic malaise spread throughout the United States economy, reinforcing many of the lessons found in Rothbard's work. A feisty, gifted, and entertaining writer, Rothbard capitalized on the moment and

published the book *For a New Liberty: A Libertarian Manifesto*, which would go on to attract a new generation of thinkers to economics. Once students were attracted to the ideas of libertarianism, they could delve deeper into the economic arguments in Rothbard's comprehensive treatise, *Man, Economy, and State*. Rothbard's book demonstrated a comprehensive knowledge of economic developments and policy implications of the 20th century and reflected an acute and perceptive economic mind.

Students who were inspired by the work of Rothbard and the teachings of Sennholz at Grove City College went on to pursue their doctoral studies with Kirzner, who built a new Austrian economics program at NYU. Three positive shocks helped firmly establish the PhD program at NYU in the early 1970s. First, 1971 marked the 100th anniversary of the marginal revolution and a renewed interest in the work of Carl Menger among historians of economics. Second, Kirzner, Rothbard, and the Institute for Humane Studies initiated a series of summer seminars in 1974 for graduate students interested in studying the contributions of the Austrian school of economics. Third, F. A. Hayek was awarded the Nobel Prize in economics in 1974. From there, Kirzner was able to bring Ludwig Lachmann to visit NYU, establish a postdoctoral program and graduate student fellowships, and fill additional faculty positions in the department of economics. At the same time, NYU became a top 10 economics department. This resulted in a stream of graduate students, postdocs, and young professors at NYU during the 1970s and 1980s.

Two NYU graduate students—Richard Fink and Don Lavoie—eventually moved to George Mason University (GMU), where they established a PhD program and the Center for the Study of Market Processes (now known as the Mercatus Center) in the 1980s. Their colleagues in the economics department included a group of elite and eclectic faculty: William Snively (who was the original chair of the economics department, and who taught comparative economic systems and respected the work of Mises and Hayek), Walter Williams, James Bennett, Karen Vaughn (who later become department chair), as well as James Buchanan and Gordon Tullock (when the Center for the Study of Public Choice moved to GMU from Virginia Tech), Viktor Vanberg, and Kenneth Boulding. This vibrant intellectual institution and community began—and continues—to attract talented students interested in the Austrian school of economics, ushering in new generations of scholars of this tradition. Indeed, the Austrian school of economics no longer faces a stark reality of stagnating ideas, but instead is a thriving research program with new developments in history of thought, theory, methodology, and applied analysis.

It is in this context that the essays in this volume were written. The essays in this volume were first published in the Center for the Study of Market Processes newsletter, *Market Process*, or as working papers, and then published in this volume in 1994; all are critical for understanding the development of the Austrian

school of economics in the post-1980 era as well as assessing the school's continuing evolutionary potential. First, the essays in this volume explore the main scientific controversies discussed during that period and provide a new synthesis for establishing a progressive research program in economics and the social sciences more generally. Second, the volume introduces readers to the early writings of scholars who have since become leaders in the contemporary Austrian school of economics. And third, the volume reflects a wide range of topics that are still relevant for the development of the science of economics and the art of political economy to this day. Our teacher Kenneth Boulding used to like to stress his concept of the "extended present"—the past speaks to us today because the evolutionary potential of these writings is still unfulfilled. If this volume can stimulate readers to pursue, as Lavoie puts it in his chapter on "A Political Philosophy for the Market Process," the "as-yet unachieved future possibility" in science, scholarship, and social philosophy, we will have done our job as teacher and scholars. Onward and upward to the continued advancement of the Austrian school of economics!

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NOTES

1. Erwin Dekker, *The Viennese Students of Civilization: The Meaning and Context of Austrian Economics Reconsidered* (Cambridge: Cambridge University Press, 2016).
2. To date, Karen I. Vaughn's *Austrian Economics in America: The Migration of a Tradition* (New York: Cambridge University Press, 1994) remains the most accessible history of this time period.
3. It is noteworthy to point out that both Rothbard and Kirzner had journal publications in the top outlets of the profession early in their career, with Rothbard publishing pieces in the *American Economic Review* and *Quarterly Journal of Economics*, and Kirzner in the *Journal of Political Economy*, they also published in regional professional journals such as the *Southern Economic Journal*, and their main scholarly efforts were directed at scholarly monographs and books. Sennholz, on the other hand, never focused on journal publications, but instead on popular publications in magazines and newspapers, and published books that sought to communicate the lessons of economics to the general public.

4. It is perhaps important to stress that, from our perspective, the publication of Mises's *Human Action* in 1949 by Yale University Press and Hayek's *Individualism and Economic Order* in 1948 by Chicago University Press served as both the culmination of the contributions of the Austrian school of economics from 1870–1930 and the starting point for a new paradigm in economics and political economy for the post-1950 era that has still not fulfilled its evolutionary potential. During the 1940s and 1950s, scholars influenced by the writings of Mises and Hayek went on to make significant contributions to law and economics (Ronald Coase), property rights economics (Armen Alchian and Harold Demsetz), public choice economics (James Buchanan and Gordon Tullock), New Institutional Economics (Douglass North, Vincent Ostrom, and Elinor Ostrom), and experimental economics (Vernon Smith). These scholars, who shared a commitment to rational choice theory (methodological individualism) and spontaneous order theorizing (compositional method), contributed to the post-1950 counterrevolution (along with the macroeconomics of Milton Friedman, the modeling of Robert Lucas, Thomas Sargent, and Neil Wallace, and the rational choice theorizing of Gary Becker, Sam Peltzman, and George Stigler) against the hegemonic Keynesian trend that characterized the profession after the Great Depression and during WWII. While these scholars did not see themselves as contributing to a unique Austrian school of economics, but rather to the ongoing evolution of economics and political economy, they emphasized the institutional contexts and processes that are essential to the Austrian school of economics when most of their neoclassical colleagues did not. For more on this, see Peter J. Boettke, *Living Economics: Yesterday, Today, and Tomorrow* (Oakland, CA: Independent Institute and Universidad Francisco Marroquin, 2012) and Peter J. Boettke, Stefanie Haefele-Balch, and Virgil Henry Storr, eds., *Mainline Economics: Six Nobel Lectures in the Tradition of Adam Smith* (Arlington, VA: Mercatus Center at George Mason University, 2016).
5. Murray N. Rothbard, *For a New Liberty: The Libertarian Manifesto* (New York: Macmillan, 1973).
6. Murray N. Rothbard, *Man, Economy, and State: A Treatise on Economic Principles* (New York: Van Nostrand, 1962).
7. Other professors at NYU during this time were Fritz Machlup, Oskar Morgenstern, Wassily Leontief, and William Baumol. Students during this period also pursued their graduate studies at University of Chicago (Mario Rizzo), UCLA (Gerald O'Driscoll), and Virginia Tech (Randall Holcombe), in addition to NYU.
8. The most famous of these conferences was held in the summer of 1974 at South Royalton.
9. While at the University of Connecticut, Snavelly was Dominick Armentano's PhD thesis advisor. Armentano's thesis was on the socialist calculation debate and the contributions of Mises and Hayek. Once Snavelly moved to GMU, he hired Karen Vaughn, who in the early 1980s had also published an important paper on the socialist calculation debate and its importance for understanding the evolution of modern economic thought.
10. For more volumes on contemporary research within the Austrian school of economics, see Peter J. Boettke, ed., *The Elgar Companion to Austrian Economics* (Aldershot: Edward Elgar Publishing, 1994); Peter J. Boettke, ed., *Handbook on Contemporary Austrian Economics* (Cheltenham: Edward Elgar Publishing, 2010); and Peter J. Boettke and Christopher J. Coyne, eds., *The Oxford Handbook in Austrian Economics* (New York: Oxford University Press, 2015). Additional volumes to read in conjunction with this one include Edwin G. Dolan, *The Foundations of Modern Austrian Economics* (Kansas City: Sheed and Ward, 1976) and Louis M. Spadaro, *New Directions in Austrian Economics* (Kansas City: Sheed Andrews and McMeel, 1978).