



The Development of Austrian Economics: Revisiting the Neoclassical Divide*

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Abstract. Recent developments in Austrian-market-process economics are discussed, and, despite the continuing difficulties of communicating with mainstream economics, some causes for optimism are discerned. Looking to a useful future for Austrian economics will require that further empirical work in applying its insights be done. The question of placing the burden of proof in policy discussions is examined.

JEL classification: A1, B4.

Introduction

This is the fifth annual keynote address to this Society. The first two, by Israel Kirzner and Karen Vaughn, were exercises in self-reflection, examinations of the state of modern Austrian economics and of its likely future. Tonight I want to return to that pattern and ask some critical questions about the development of Austrian economics.

I realize that, in doing so, I am taking a risk. There is arguably only so much that one can say about Austrian economics and how it differs from other types of economics. So it is to be expected that my choice might occasion a certain apprehension, and even disappointment, in the expectation of yet another attempt to say who we are and what makes us different. Instead of pontificating about what Austrian economics is, and how it ought to be done, why not adopt the Nike approach and “just do it.” As will emerge below, I have some considerable sympathy with this viewpoint. I want to say something about how we ought to “just do it.” My calculated decision to return to self-reflection reflects my belief that there are important things to be said in taking note of what has happened in the last five years and what implications this might have for the future.

How are we Doing?

In her presidential address Karen Vaughn suggested that the SDAE had been “organized to give its members, marginalized in their academic employment a sense of academic community and a forum for development.” She wondered how we might ensure that Austrian economics had “both an interesting and a useful future.” (Vaughn 1998:4).

Our mission statement, our statement of purpose is composed of three basic elements (my numbering and headings): develop, broaden and support.

*This is a revised text of my presidential address to the SDAE, delivered on November 11, 2000.

1. **Develop:** The purpose of the Society for the Development of Austrian Economics is to support the development of an approach to economics that draws upon the insights of Austrian writers such as Carl Menger, Ludwig von Mises, and Friedrich Hayek, among others. These ideas include ...
2. **Broaden:** The Society recognizes that these ideas are not the exclusive property of Austrian theorists. Hence, in addition to those who are deeply influenced by Austrian writers, we also seek members who are involved in the development of the New Institutional Economics, Evolutionary Economics, Radical Subjectivism, Public Choice Theory, Constitutional Economics or any other related approach. We hope that as a sufficiently heterodox mix of scholars all broadly sympathetic to the same ideas, we can advance understanding of economic phenomena.
3. **Support:** The Society will provide members with a variety of ways to share their interests and results of their work.

In terms of these stated goals we might ask, how are we faring after the five short years of our existence?

There are grounds for guarded optimism. In reference to item number 3, there is a small but very active network of scholars working in the market process Austrian tradition. The product of this work includes perhaps a few dozen articles published in diverse journals, including one or two in journals esteemed quite generally by the profession at large, many books (including more than twenty in the Routledge series on the Foundations of the Market Economy!), many papers presented at conferences such as this, and an active journal. This work reflects a shared intellectual heritage and a shared language of intellectual discourse that has been applied to a number of areas of current interest including¹ money and banking institutions (White 1984, 1992, 1993, 1999, Selgin 1988, 1996, Horwitz 2000), the theory of the firm and economic organization (Sautet 2000, Lewin and Phelan 2000) the transition to market economies (Boettke 2001), anti-trust economics and the economics of standards (Lewin 2001a, 2001b), development economics (Chamlee-Wright 1997, Boettke 1994) and macroeconomics (Garrison 2001, Horwitz 2000) among others. In addition, we have continued to write about those areas that have been of traditional interest to us like methodology (Cowen and Rizzo 1996, Lewin 1997) and history of thought.

Item number 1 may be said to refer to aspects of our research program. Have our members continued to apply the ideas of the founding scholars and to apply them in novel ways? Vaughn (quoting Foss 1994) had raised the question as to whether modern Austrian economics with its focus on commentary and criticism was a degenerating research program “in that no new propositions or theories have been added to contemporary economics by new Austrians,” and that perhaps “Austrians focus too much on the ‘negative heuristic’ in doing their work.” (Vaughn 1998:6). Based on the work just alluded to in the preceding paragraph, there is some reason to believe that progress has been made in moving from the negative to the positive heuristic, “explaining puzzling features of the world in novel ways” and addressing current policy questions in a manner informed by the Austrian heritage, and I will have something more to say about this below.

In other respects there has also been some progress. The second element of our statement of purpose refers to opportunities for cooperating with other sympathetic heterodox scholars;

and I think it is true that in the last few years intellectual alliances and joint products involving Austrians and other modern heterodox schools of thought have been forged, most notably with scholars working in the New Institutional Economics, Public Choice and Constitutional Political Economics and also in economic history and the history of economic thought.

So, in all three areas there has been continuing activity. The potential for success, it appears to me, has been greatly enhanced by two technological developments; the internet and the explosion of book and desktop publishing. Both are aspects of the information economy that help us to express ourselves and to greatly enhance communication between people with complementary knowledge and ideas in different places, not only of this country, but of the world. In many ways the SDAE is an electronic society.

Our biggest challenge seems to be ensuring the existence of a viable number of *new* quality Austrian scholars. Graduate students have continued to take up Austrian economics in spite of the extra burden of having to acquire proficiency in two paradigms, and of the additional constraints they face in the job market, but, it seems to me, this is our most difficult task. Developments in the mainstream of economics and on the periphery may have some bearing as to whether we can expect graduates with an interest in Austrian economics to obtain tenured positions. I will return to this later as well.

While we have only existed as a formal Society for five years, the modern Austrian revival dates from 1974. Should the Austrian program generally not have made more progress over this time? Perhaps, but our progress is inevitably a complex function of current intellectual trends and fashions. In this regard, I do think that in the last few years we have witnessed something of a change of pace, perhaps a gathering of momentum. There are powerful, enduring forces at work outside of our rather small intellectual milieu that are likely candidates to explain what might come to be seen as a renewed interest in the ideas and methods associated with market process economics.

Criteria of Success and Avenues for Dialogue

Before I turn to this in more detail, let me address one more issue in this thumbnail evaluation of our progress. I want to ask the following question: What, for us, would constitute ultimate success? That is to say, what needs to happen such that we would feel that we, as modern Austrian economists, have been completely vindicated in our mission? Perhaps, as people obsessed with processes it is unfair to ask a question about outcomes, but I think its useful in focusing attention on our situation. I would suggest that when we have achieved ultimate success we will no longer have a use for our Society. And, of course, that would be when a large number of our professional colleagues accepts or subsumes our presumptions within their own; in a nutshell when Austrian economics (once again) becomes part of the mainstream. So, in a paradoxical way, *we are a Society working to achieve its own demise*.

We should take no comfort from the fact that this is one goal we are extremely unlikely to achieve. For in taking such comfort we involve ourselves in an unworthy project. It should be no part of our mission that we find merit simply in being different. The conditions that account for that difference should rather be matters of regret. It is all too easy to adopt and maintain a posture of righteous indignation as we stand on methodological and doctrinal purity. It is all too easy to discount good ideas because we may think that Austrians

have thought of them first and have understood them better. Such postures help ensure our distinctiveness but do not advance our cause.

Of course, it does not help matters that, as things stand now, we are frequently faced with disdain, indifference and arrogance on the part of our mainstream colleagues. What I am suggesting is that, in spite of this, we should be alert to a fault to all possible exceptions to this general hostility, and that we should actively look for cracks in the door, however small, through which we may be invited to engage in dialogue. Though we should have no illusions in this regard about the extent of mainstream indifference and hostility, one wonders if this has changed at all in the last five years or is likely to change in the near future.

The “Crises” in Neoclassical Economics

If I dramatically proclaim “neoclassical economics is in crisis” this will not be news to you, at least it wouldn’t be to me if I were in your place. It may not even be true. I have been hearing this ever since I have been studying economics or at least since I became aware of Austrian economics. The impending death of neoclassical economics has been proverbially and consistently exaggerated. We should not base our hope of opportunities for constructive dialogue with neoclassical economists on the expectation of its immanent collapse.

At the same time, it is true, and has been true for a long time that there are dynamic tensions within the neoclassical research program. Some of this, it is difficult to tell how much, has to do with the external environment. The dramatic failure of socialism which was not accounted for in the neoclassical paradigm, the relentless march of technology which cannot be easily accommodated quantitatively as it involves the introduction of new products and resources, or the sheer rapidity with which change is occurring in the postmodern world—all this tends to enhance the relevance of Austrian economics or similar approaches that stress processes over outcomes. As the real world moves further and further away from the neoclassical edifice it is natural to expect the tension to increase. The sacrifice of relevance for precision tends to loom larger over time. It is possible that the environment for a sympathetic hearing of Austrian ideas may be improving.

In addition to this, there are tensions that emanate from the intrinsic nature of the neoclassical research program itself. The “institutionalization of formalism” (Hodgson 1999:6) in neoclassical economics has brought with it developments that are inimical to its own growth as a viable research program. Those developments in neoclassical economics which have rendered it increasingly problematic are likely to be well known to this audience, and have been recently well articulated by Peter Boettke (1996, 1997). They include the progression from a situation in which mathematical models were considered to be dispensable didactic aids in the expression of complex ideas, to a situation in which they are considered to be the whole story; and the progression from a situation in which the notion of equilibrium was used as an expository device to illuminate the real world, to one in which equilibrium is either a description of the real world or a picture of how it ought to be.

These twin developments explain how it is that Austrian economics, in many ways sympathetic to the original neoclassical research program in its search for general principles of rational human action, and an ally in the opposition to historical institutionalism devoid

of general theoretical principals, could now find itself an ally of modern institutionalists against neoclassical formalism. To greatly oversimplify, we may say that, as Austrians, we are against both history without theory and theory without history, and modern neoclassical economics is the latter (see Boettke 1997). Increasingly modern neoclassical economics has even abandoned its lip service to the obligatory empirical data that each article had to have to qualify it as suitably “empirical,” and has embraced virtuosity of mathematical technique as the hallmark of true economic science, a trend bemoaned recently by Milton Friedman [1991:36–37]. As Boettke has suggested neoclassical economics has become “precisely irrelevant” (1996) or in Hodgson’s words it has become “rigorously irrelevant and precisely wrong” (Hodgson 1999:3). And, as just suggested, developments in the external environment have served to exacerbate these tensions.²

Hodgson has suggested further that this institutionalization of formalism has brought about “declining student enrolments in economics degree courses and a shift toward close substitutes such as business studies [and that] declining enrolments and shrinking budgets in economics departments have led to a narrowing of the economics curriculum, and the virtual disappearance of job opportunities for non-mathematical, non-neoclassical” students of economics (Ibid:12–13). Does this mean that economics departments as we know them will become increasingly irrelevant and will ultimately implode, or that economics will split into at least two different disciplines, or some combination of the two? It won’t surprise you to hear me say this is something whose character or timing we cannot predict.

What Evidence is there that Austrian Economics has Anything to Say to Neoclassical Economists?

If you had read a recent article by an eminent economist in one of the leading journals, you might be led to think that some neoclassical researchers are ready to listen to and contemplate some aspects of modern Austrian economics, particularly Hayekian economics. I was. The perspective I adopted in reading it, was to imagine the author, Sherwin Rosen talking to fellow neoclassical economists trying hard to explain to them why they should be interested in Austrian economics and why they should take it seriously. According to Rosen, Austrian economics offers a valuable perspective on the economy by the way in which it treats equilibrium, competition and entrepreneurship. I would like to suggest a few quotes that support this perspective. A reading of the article will turn up more.

Equilibrium and Coordination

Considering the question of equilibrium it may be said that “Austrian economics is most interesting when, in a very general sense, knowledge and information are highly decentralized,... and widely dispersed ... Not only do resources gradually move to their (perceived) highest valued uses, but values themselves are discovered and slowly revealed along the way.” (Rosen 1997:140).

“The Austrian approach is entirely different [from the neoclassical one]. The economy is in a perpetual state of disequilibrium: things are always changing and in a state of flux. The economy is ever evolving, creating unforeseen profit opportunities that agents are constantly trying to find and exploit.” (Ibid:141).

“The overall point I am attempting to make is well-expressed by the ‘invisible hand welfare theorems of neoclassical economics.... [Under the postulated conditions] a Pareto optimal allocation is achieved by a decentralized, competitive market price system.... Austrian economists have found this notion of the invisible hand misleading, if not entirely off the point. They occupy some high ground here. Much of the modern neoclassical analysis goes back and forth freely between the Pareto optimum or ‘central planning’ allocation problem and the decentralized market implementation of the optimum. In the Austrian approach, all the intellectual traffic goes only in one direction, from individual behavior to social order. The central planning problem cannot even be defined.” (Ibid:141)

“The approach begins with the premise that there is an enormous amount of ignorance in the system. No one knows or can ever know what is being maximized overall. Decentralization is fundamental because specialization is extreme. Consider that out of the totality of what is known in the economy at large, any single person knows essentially nothing...” (Ibid:141)

“If we can’t even identify most of the goods and services that form the basis of economic affairs, how can we know our full opportunity sets? How can we define preferences over such goods or over those that might appear on the market at some future time but are unknown today? And if we do not know them ourselves, how can anyone aggregate what is known by all? The central question is how all this knowledge and dispersed activities combines into a meaningful social allocation mechanism. The reverse question of decentralizing some notion of aggregate welfare or even the concept of Pareto optimality never arises.” (Ibid:142).

“This is not an academic debating point of pure theory or doctrine. There are sound economic reasons for the compartmentalization and specialization of knowledge in society ... [and] this is what accounts for the elaborate division of labor and lengthy roundabout chains of production in modern economics.” (Ibid:142).

“The idea of decentralizing the problems of a social optimum through markets is turned on its head in the Austrian scheme. The fundamental issue becomes one of assessing how all the individual pieces fit together and how to make sense of the whole.”

Markets, Socialism and Central Planning

“‘The central planning problem’ is equivalent to a market solution given the specification of technology and tastes. [Neoclassicals adopt what Austrians would call a ‘black box’ approach when they say the that] ‘markets must do it.’ [This] is unthinkable in the Austrian approach. The debate over central planning earlier in this century best illustrates the essential logic of the Austrian approach and one of its most outstanding successes...” (Ibid:144).

“... the problem was not only that information had to be collected at enormous expense, but also that information about technology, tastes, and products literally existed only when the market called it into being. Even then it existed only in an extremely decentralized form, continuously changing and evolving within the specific circumstances of time and place.” (Ibid:145).

The Hayekian Knowledge Problem

Hayek's challenge has stimulated much effort within neoclassical economics about how to design mechanisms to deal with the implications of information that is personal, incomplete and dispersed. For example, information is asymmetrically distributed among people implying conflicts of interests that lead to suboptimal outcomes, as in the principal agent problem and the problems of adverse selection and moral hazard. While these may be of some interest to modern Austrians, they are not likely to be overly impressed with them, insofar as they are focused on the question of achieving incentive compatibility. "Achieving incentive compatibility often requires that the designer know an enormous amount about the conditions of the problem—almost as much as a central planner would have to know." (Ibid:146)

Empirical Content and Justifying Methodology

Neoclassical economists use the "as if" instrumentalist approach. In doing so they work backwards trying to infer micro structures from predictive success. Since Austrians are unwilling to do this, the appeal of their work is limited. However, neoclassical economists should be aware, that "the neoclassical inference problem of going from observed behavior to underlying structure has proven especially hard to solve in practice.... Less precise quantitative evidence in economics is often much more secure than precise structural estimates.... Perhaps the frustration of estimating structural parameters has turned many non neoclassical economists away from the neoclassical modeling approach...." (Ibid:147).

The Role of the Entrepreneur

"Entrepreneurs are not to be found in neoclassical economics.... there is no role for [them] when economic conditions are 'given,' when the list of goods to be traded is cut and dried, when consumers and producers are clearly identified and when resource availabilities are known.... Entrepreneurship is a disequilibrium phenomenon...." (Ibid:148–149).

"[Nevertheless it] remains an elusive concept that lacks an operational definition and cannot be quantitatively measured" and given the criteria of neoclassical economics this perhaps explains why it is ignored. "Entrepreneurship is the kind of thing that can be recognized after one sees it ... even though it may be hard to describe in the abstract." [It is surely at the heart of] "the Austrian view of competition as an evolutionary struggle." (Ibid:149).

The article from which I extensively, but selectively, quoted was written by Sherwin Rosen, distinguished professor at the University of Chicago, senior fellow at the Hoover Institution, and certainly someone who would describe himself as being within the neoclassical fold. The article appeared in the *Journal of Economic Perspectives*, Fall 1997. It arose from, and is a revision of a presentation, at the Mont Pelerin Society meeting in Vienna in September 1996.³ In reporting it to you I definitely put the most favorable spin on it possible. Rosen said some other things with which each of us may have wanted to take exception. In reading the article from different points of view I realized that one can get very different impressions depending on whom one considers the target audience to be. In my construction

I adopted the Lachmanian principle of choosing the most charitable interpretation when there is any doubt.

Rosen provoked a very unfavorable response from those sympathetic to the Austrian paradigm at the meeting and this is reflected in Leland Yeager's response (Yeager 1997), which was printed in the same journal issue, and in Karen Vaughn's remarks in her presidential address. This is certainly partly explained by the last section of Rosen's article, which I did not report on, in which he suggests that Austrian economics has not met the "market test" of acceptance,⁴ and of some remarks on the supply of entrepreneurship. Clearly this type of assertion got the treatment it deserved in Yeager's (1997, 2000) incisive demolition. From talking to Karen Vaughn about this my suspicion was that another part of the explanation of why the session was so badly received might have had something to do with the perception of those who were there as to the tone of the presentation and the way the session was run. It seemed to me it might have been a missed opportunity. Certainly the written words ring very differently and are pregnant with possibilities.

I also wondered how the session came about and why Rosen was picked as presenter, so I contacted him. He told me he had been interested in Hayek for years particularly "his view of decentralization of an economic system and how new knowledge is generated..." "These are the ideas I tried to express in my paper. They are entirely different than the way most economists think about it and the way the 'invisible hand' is taught as general equilibrium theory, and I was trying to point that out to theorists and general economists who only know about the 'Welfare Theorems.' That was the main point of the article, but I had been teaching it for many years that way in my graduate price theory course. I thought the Austrians would be happy about me blowing their horn, but except for you, that proved not to be the case! I think it was the criticism about the market test and the practical uses of Austrian economics that [annoyed them], but that is trivial relative to the bigger issue." (Rosen 2000). Also disappointing is the fact that Rosen received no real feedback from his "side of the fence."

I wish I could report that our further contacts were productive. The exact opposite is unfortunately the truth. Once we had got past the pleasantries and I proceeded to point out those parts of the article which I considered to raise questions, it began to emerge that my interpretation of the other parts were indeed much too charitable. Suffice it to say that, I managed to discover that were it not for the hand of some insightful referees and an editor, some parts of the article that sounded so compatible with Austrian sensibilities might not even have been there. There was no missed opportunity, even though there might have been and could certainly be in the future. I guess what this tells me is that while one should be open to communication opportunities one should not be naïve. From this case study at least, it would appear that Karen Vaughn was right in saying that most of our productive collaborative opportunities are not likely to come from within the neoclassical fold. We should always be on the lookout for exceptions however.

Bridging the Neoclassical Divide

I do have one counter example that I would like to briefly look at, a case where "orthodox" research led inevitably and unconsciously to Austrian insights.

Antitrust and the Economics of Standards

Recently much attention has been focused on the case of the Justice department against Microsoft. This case rests on, among other things, assertions that Microsoft is illegally foisting an inefficient operating standard upon hapless computer users. In support of these assertions economists have looked to an area of economic research known generally as the “economics of QWERTY”—a body of literature provoked by Paul David’s 1985 article which claimed that the standard QWERTY keyboard is an unfortunate accident of history that might have been avoided with enlightened government policy concerning the establishment of standards. David’s assertions and his historical account has been roundly and convincingly criticized by Stan Liebowitz and Stephen Margolis in a series of articles over the last decade and in a recent book (Liebowitz and Margolis 1999, Lewin 2001a, 2001b) and I won’t discuss this here. What is of interest to us is the very Austrian flavor of this work. I have tried to point this out and also to show the relevance of Austrian ideas to the policy questions raised in this and other contexts.

At issue is whether government can and should act to prevent the establishment of an inefficient standard or the promotion of an efficient one. Clearly, the question of knowledge is crucial. How can anyone know what an efficient standard is before it is established? How does the market process work to reveal the properties of alternative standards? A Hayekian approach to the nature and generation of knowledge not only suggests a hesitant approach to the role of government in this context, it also suggests more specifically where one ought to place the burden of proof in deciding these things.

This can be illustrated in very familiar terms. The role of metaphor in scholarly discourse becomes plain here. Consider the discussion about policy relevance to be analogous (it is very closely analogous) to the conducting of an experiment with (known or unknown) probabilities. As everyone knows, the outcome of the experiment will depend crucially on which errors one seeks to avoid, that is, on which errors one considers to be Type I or Type II. To be more specific, imagine that we are “testing” for the existence or absence of an inefficiency in an established network or standard (or the adoption of a product associated with it). Then two types of experimental design are possible depending on the choice of the null hypothesis, H_0 , as illustrated in the Table 1 below.

Assume that in order to establish policy relevance it is necessary to disprove the null hypothesis. The alternative designs reflect the presumptions of the experimenter. The essential difference between the two designs is *where it places the burden of proof*. Design B places it on those who lean in favor of policy interventions, while design A places it on those who presumptively oppose it. In this way the proponents and opponents of government

Table 1. Experimental design in searching for policy relevance.

Experimental design	$H_0 = \text{the null hypothesis}$	$H_1 = \text{the alternative hypothesis}$
Design A	an inefficiency exists ⇒ (the status-quo is not efficient)	an inefficiency does not exist
Design B	an inefficiency does not exist ⇒ (the status quo is efficient)	an inefficiency exists

intervention are each trying to place the burden of proof on the other. It is always difficult to reject the null hypothesis, (it is sometimes not possible under any practical circumstances). The experiment is designed to make it difficult. Design B is designed to minimize government intervention. Design A is designed to facilitate it. The two designs reflect differences of opinion about the likely benefits of government intervention and, thus, differences in fundamental values.

Clearly, Austrians cannot balk at this type of reasoning or research. Thoroughgoing subjectivism suggests that much of the neoclassical preoccupation with measuring costs and benefits (“if you can’t measure, measure anyway”) is ill-advised. An example of a telling Austrian criticism in this regard is the use of quantitative cost estimates to establish efficient property rights or the conducting of social cost-benefit analyses. But there is no escaping the need to make estimates of value in some circumstances. For example in a legal judgment designed to make the plaintiff whole some estimate has to be made (see Lewin 1982). And there is no escaping the appeal to the possible losses that may occur from the placement of the burden of proof in the wrong place. An Austrian, informed and convinced by Hayek’s understanding of the uses of knowledge in society, will want that burden placed in a manner consistent with Design B and will be able to argue for it using this type of framework in a way that is easy for neoclassicals to understand and appreciate. And this fairly influential work has far reaching implications for anti-trust policy.⁵

Other Examples and the Need for Empirical Studies

There are many other areas which exhibit similar opportunities for noticing and developing Austrian insights embedded within influential work. Perhaps the most notable is the theory of the firm, or, more generally, the large volume of work on the question of economic organization. Much of this is occurring in business schools and in other departments rather than in economics per se. Building on the pioneering work of Edith Penrose and George Richardson, some modern Austrians or Austrian sympathizers have made important contributions to the understanding of modern business organizations. Richardson’s work is more than coincidentally Hayekian. His pioneering article (1953) entitled “Imperfect Knowledge and Economic Efficiency” was inspired by Hayek (1937). As Foss has said, Richardson is a Marshallian-Austrian and he (for example, Foss 1998) and Richard Langlois (many articles, for example, Langlois 1998) and others have very successfully extended this work to examinations of specific industries, historical periods and economic policies.

The final example I will mention is the area of human capital (Lewin 1999, chapters 10 and 11). It would seem that Austrians might have something to say about both the human and the capital parts of this topic. About capital it is acknowledged that the Austrians wrote the book. And regarding human behavior, Austrian insights could surely inform the analysis of decisions relating to job training, education, health care, migration and so on. The lack of Austrian contributions in the area of human capital has always puzzled me. Perhaps this is now changing. Most recently, Steven Horwitz and I have ventured into the related area of the economics of the family and he is currently working on a paper exploring Hayekian implications for the role of the family as an institution in society (Horwitz and Lewin 2001, Horwitz 2001).

In all of these areas and others there are opportunities. But if Austrian ideas are to play their part, more broadly “empirical” Austrian contributions will have to be made. I mean by this that studies containing historical cases, current statistics and generally links to concrete reality will be necessary. In what must have been the last discussion I ever had with Ludwig Lachmann he said to me “Austrians will have to do more empirical work.” I found this very surprising, thinking it somewhat out of character, and was not sure what he meant. I think I do now and I hope I have said enough to convince you that there is indeed reason to be optimistic about Karen Vaughn’s hope for a useful as well as an interesting Austrian economics.

Acknowledgments

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Notes

1. The works cited in this paragraph are only a partial set of examples (emphasizing longer works) and by no means a complete list.
2. Again in Hodgson’s words, “the dominant preoccupation of mainstream university economics departments often do not encompass the pressing issues of the day; they do not generally foster the study of real economic processes, systems and institutions.” (Ibid:3).
3. I learned with sadness that Sherwin Rosen passed away recently after a protracted illness.
4. This theme has recently been extend in an even more uncompromising fashion by Laband and Tollison (2000). For a decisive critique see Yeager (2000).
5. I intend to take this reasoning further in future research. An issue that comes immediately to mind, one that will be of interest to Austrians, is the question of ‘wertfreiheit’—the ability to separate scientific and value judgments. If it is true, as I claim in the text, that in conducting empirical research in the social sciences, research must be informed by some theoretical framework, one must make a value-driven decision about where to place the burden of proof, then do values not inevitably ‘contaminate’ the research? To answer here briefly; it depends what one means by ‘contaminate.’ As long as the research uses sample data to make inferences (which can hardly be avoided), and regardless of the particular statistical method or even methodology that one is using, this problem cannot be avoided. In everything we do we are forced to make decisions based on assumptions formed from our experience with the behavior of others that reflect only part of the whole picture. These assumptions reflect conscious or unconscious values (like giving people the benefit of the doubt, presuming the innocence of any accused, etc.). This does not mean that we cannot strive for scientific detachment once these fundamental priors have been set and the research proceeds. *Within* the particular “research design” one may still strive for and require scientific detachment, even though the design itself is, or may be, influenced by our values.

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