

**THREE DECADES OF PROGRESS IN AUSTRIAN ECONOMICS:
FROM SOUTH ROYALTON TO GROVE CITY***

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1. INTRODUCTION

Recent discussions on internet lists and in other informal settings has made it increasingly evident that Austrian economists are deeply vexed and divided over a number of important questions regarding the nature and extent of progress in their discipline. These questions include: whether Austrian economics has progressed much, if at all, during its modern revival; what standards should be applied in appraising such progress; and what the appropriate means are of ensuring such progress in the future. In this lecture I propose to address these questions and attempt to provide answers to them.

Before dealing with these questions, however, it is necessary to bring to light and resolve two related though more fundamental issues that have long been the source of a tacit rift in the ranks of Austrian economists. The first of these issues centers on the question of whether economics is a profession or a vocation. The second involves the role played in the modern Austrian rebirth by the South Royalton conference, which was held a little more than thirty years ago. I will argue that, generally, the position one takes on these two vital matters strongly influences whether he believes that considerable progress has been made in developing the Austrian paradigm during the last three decades—as I emphatically do—or instead that Austrian economics has blundered down blind alleys and is currently stagnating, as some Austrians have recently maintained.

In what follows, I will analyze each of these two basic issues in detail and try to show how differing views on them yield profoundly different standards by which the progress of Austrian economics is assessed. In light of what I argue to be the correct standard, I will conclude by outlining the case that Austrian economics has progressed by leaps and bounds, especially in the last two decades, and is fulfilling the initial promise of

its founder, Carl Menger (1976, pp. 48-49), to discover the essential causal laws governing the economic activities of human beings—laws that are at once both realistic and exact.

2. ECONOMICS: VOCATION OR PROFESSION?

The New Shorter Oxford English Dictionary gives one definition of “vocation” as “The work or function to which a person is called; a mode of life or employment regarded as requiring dedication” (Brown 1993, vol. 2, p. 3595). The eminent semanticist S. I. Hayakawa also emphasizes “dedication” as the distinctive feature of a vocation which differentiates it from a profession. According to Hayakawa 1994, p. 351):

Profession suggests a position that cannot be attained without a considerable amount of higher education, and that involves one creatively in mental rather than manual labor. *Profession* once referred to the three learned *professions*—law, medicine, and theology—but it is now often used to confer status upon many other ways of earning a livelihood Even when *profession* is used more strictly, it need not suggest dedication on the part of a member. By contrast one sense of **vocation** specifically stresses this dedication. . . . Moreover *vocation* stresses a long-term commitment to something that is not necessarily equated with the earning of a livelihood. . . .¹

¹ The italics and bolding in this passage appear in the original.

In praxeological terms, a vocation involves what Ludwig von Mises (1998, pp. 584-85) called “introversive” labor while a profession involves “extroversive” labor. The essence of introversive labor is work undertaken solely for its own sake and not as a means to a more remote end. Extroversive labor, in contrast, is performed because the individual “prefers the proceeds he can earn by working to the disutility of labor and the pleasure of leisure” (Mises 1998, p. 585).

One of the “two most conspicuous examples” of introversive labor, according to Mises (1998, p. 584), is “the search for truth and knowledge pursued for its own sake and not as a means of improving one’s own efficiency and skill in the performance of other kinds of labor aiming at other ends.” The second is “genuine sport, practiced without any design for reward and social success.” It is not that the effort expended by the “truth seeker” or “mountain climber” does not involve the disutility of labor, rather “it is precisely overcoming the disutility of labor that satisfies him.” Thus genuine truth seeking in any scientific discipline qualifies economically as “consumption” and its pursuit as a vocation.

It is important to note moreover, as Mises (1998, p. 585) does, that the pursuit of almost any vocation requires “not only the personal efforts of the individuals concerned, but also the expenditure of material factors of production and the produce of other peoples’ extroversive . . . labor that must be bought by the payment of wages.” In other words, the search for new truth in economics, as in any pure science, necessitates, in addition to introversive labor, an institutional framework composed of a structure of

complementary goods that has been deliberately and rationally constructed by one or more property owners.²

The founding members of the Austrian school pursued economic research neither for pecuniary gain nor because they sought professional recognition or an influence on public policy. According to Mises (1984, p.18), “When Menger, Böhm-Bawerk and Wieser began their scientific careers . . . [t]hey considered it as their *vocation* to put economic theory on a sound basis and they *dedicated* themselves entirely to this cause [emphases are mine].” These three eminent Austrians, therefore, were not economists by profession but by vocation.

The "vocational" economist takes a position in academia or works in some other profession such as banking, journalism, industry or government in order to obtain the concrete means necessary to sustain and complement his efforts to discover new truths or expound and apply established truths in his economic research and writing. The "professional" economist, in contrast, aims at earning a livelihood, eliciting acclaim from peers, achieving public fame, shaping political policies or, most likely, a combination of these ends. Thus the difference between the vocational economist and the professional economist is not their objective method of earning a living but the subjective ends aimed at, which are unobservable. Nonetheless, despite the subjective element involved, the two kinds of economists can be readily distinguished from each other by scrutinizing the disparate views they express toward economic research, particularly its truth content and perceived rewards.

Vocational economists like Murray Rothbard are not allergic to using the unfashionable terms “truth” and “law” when characterizing the science of economics.

² This point is argued in detail in Salerno 2002.

For Rothbard economics is a substantive body of immutable and universal causal laws that are logically deduced from the incontrovertible fact that people employ means to attain their most desired ends. As such, Rothbard (2004, p. 1360) held that “all these elaborated laws [of economics] are absolutely true” and that “economics does furnish . . . existential laws.” Furthermore, in the 1950’s and 1960’s, Rothbard was working on Austrian economics in obscurity and virtual isolation. He did not obtain a full time academic position until 1966 and, before then, was earning a precarious living on foundation grants while he soldiered on in building up the Austrian theoretical edifice. Yet Rothbard (1990, p. 2) revealed in an interview in 1990 that he had been quite content during this period: “Any chance to write a book or meet new people was terrific.” These are the views and the attitudes of the ideal vocational economist.

Paul Samuelson is the exemplar of the modern professional economist. When Samuelson (1988, p. 63) once grandiosely declared, “I can claim in talking about modern economics I am talking about me,” he spoke truer than he knew. In his approach to economic research Samuelson (1993, p. 242) is a self-proclaimed follower of the “views of Ernst Mach and the crude logical positivists.” These so-called philosophers of science contended, “good theories are simply economical descriptions of the complex facts of reality that tolerably well replicate those already-observed or still-to-be-observed facts.” Of course economic theory formulated as a shorthand summary of a past sequence of observable and non-repeatable historical facts cannot possibly elucidate the immutable causal laws that operate and interact to produce a unique and complex economic phenomenon at a later moment in history. Nonetheless, Samuelson (1993, p. 242) embraces this view of economic theory: “Not for philosophical reasons but purely out of

long experience in doing economics that other people will like and that I myself will like. . . . When we are able to give a pleasingly satisfactory “HOW” for the way of the world, that gives the only approach to “WHY” that we shall ever attain.” Samuelson and Solow’s formulation of the now discredited stable Philip’s Curve tradeoff between inflation and unemployment is an example of such Machian theorizing in action.

Without doubt, the Philips Curve for a time was well liked by Samuelson, Solow and other professional economists and even used by policymakers, but its truth content in the face of the stagflation that developed in the 1970’s was exactly nil.

To be fair, Samuelson does not dismiss all concern for truth in economic theory. For example he confesses that at 20 years of age he had harbored high hopes that anticipated progress in econometric methods would “narrow down the uncertainties of our economic theories.” However, as a septuagenarian, Samuelson (1993, p. 243) was forced to admit that “it has turned out not to be possible to arrive at a close approximation to indisputable truth.” The accumulation of econometric findings by the 1990’s, it seemed to Samuelson, was not “convergent on a testable truth.” Samuelson (1993, p. 294) rationalized this state of affairs by arguing, “[T]ruth has many facets. Precision in deterministic facts or in their probability laws can at best be only partial and approximate.” In the introduction to his article that was to become the template for modern economic modeling, Samuelson was even more frank regarding the severe limitation of Machian economic theory to embody a true conception of the causal relationships that govern economic reality. Wrote Samuelson in this seminal article (1968, p. 58): “I think it would be folly to come to any conclusions on the basis of so simplified a model and such abstract reasoning; but on the other hand, strong simple

cases often point the way to an element of truth present in a complex situation.”

Ultimately, however, the professional economist need not fret overly much about whether he can harvest a grain of truth from such unrealistic models, because his reward for pursuing economic research lies elsewhere. According to Samuelson (1970, p. 295), “In the long run the economic scholar works for the only coin worth having—our own applause.” Elsewhere, Samuelson (1988, p. 72) described scientists, including professional economists, as being “as avaricious and competitive as Smithian businessmen. The coin they seek is not apples, nuts, and yachts; nor is it coin itself, or power as that term is ordinarily used. Scholars seek fame. The fame they seek . . . is fame with their peers—the other scientists whom they respect and whose respect they strive for.”

Samuelson’s account of the extroversive reward sought after by modern professional economists clearly—though perhaps unwittingly—reveals that their research endeavors are not governed primarily by a search for truth. Mises (1978, pp. 7-8; 1998, pp. 868-70) gives a compelling sociological interpretation of why academic researchers in the aprioristic sciences such as economics and philosophy are diverted from seeking truth to striving after other ends. As universities traditionally developed, the professors were not only supposed to teach but also to make original contributions to their science. Yet, as Mises noted, very few individuals living during any historical epoch are endowed with such ability. In empirical sciences, whether of the natural or historical variety, however, the illusion that all academic researchers contribute something valuable to their science can be plausibly sustained because there is no visible distinction between the scientific methods employed by the creative genius and those resorted to by the inferior

researcher. As Mises (1998, p. 869) explained:

The great innovator and the simple routinist resort in their investigations to the same technical methods of research. They arrange laboratory experiments or collect historical documents. The outward appearance of their work is the same. Their publications refer to the same subjects and problems.

Research in economics is quite different: it requires sustained, rigorous and systematic thinking, a faculty which very few possess and even fewer are willing to exercise. This is true of both the creative genius who constructs a great edifice of economic theory as well as those who seek to refine, extend and apply his system to new problems. His students and followers must also expend many years of their life and a great deal of rigorous mental effort in mastering the entire theoretical system before they can make even minor contributions to economics. Therefore, Mises (1998, p. 869) concluded, in economics:

[T]here is nothing that the routinist can achieve according to a more or less stereotyped pattern. There are no tasks which require the conscientious and painstaking effort of sedulous monographers. There is no empirical research; all must be achieved by the power to reflect, to meditate, and to reason. There is no specialization, as all problems are linked with one another. In dealing with any part of the body of knowledge one deals actually with the whole.

Those aspiring economics professors who lack the intellectual faculties or temperament needed to conduct systematic theoretical research therefore must find another field in which to make their required research contributions. For example, in the German-language universities of the late nineteenth and early twentieth centuries, these men turned to economic history and descriptive economics. Mises's perceptive sociological analysis explains the rise to dominance and entrenchment of the German historical school in the universities as well as its hysterical antipathy toward economic theory. According to Mises (1978 p. 8):

The fiction that in the sciences all professors are equal does not tolerate the existence of two types of professors in economics: those who work independently in economics [as original theorists]; and those who come from economic history and description. The inferiority complex of these "empiricists" gives them a prejudice against theory.

By the 1920's the German historical school was on its last legs but still ensconced in the professorial chairs. The members of the third generation of the school were a dull and undistinguished lot except for Werner Sombart, who had been a student of Gustav Schmoller's, the leading German historicist of the second generation. Mises, who knew Sombart personally, portrayed him as the quintessential professional economist. It is worthwhile quoting in full Mises's entertaining and eviscerating description of Sombart, because the personality that emerges is the antithesis of the vocational economist:

Werner Sombart was the great master of his set. He was known as a pioneer in economic history, economic theory, and sociology. And he enjoyed a reputation as an independent man, because he had once aroused Kaiser Wilhelm's anger. Professor Sombart really deserved the recognition of his colleagues because to the greatest degree he really combined in his person all their shortcomings. He never knew any ambition other than to draw attention to himself and to make money. His imposing work on modern capitalism is a historical monstrosity. He was always seeking public applause. He wrote paradoxes because he could then count on success. He was highly gifted, but at no time did he endeavor to think and work seriously. Of the occupational disease of German professors—delusions of grandeur—he had acquired an elephantine share. When it was fashionable to be a Marxian, he professed Marxism; when Hitler came to power, he wrote that the Fuehrer receives his orders from God! (Mises 1978, pp. 102-103)

Professionalist aspirations and the culture it engenders are not only inconsistent with truth seeking in economics, however, they are positively antithetical to it. For the professionalization of a scientific discipline, particularly a social science like economics, almost always proceeds hand in hand with the expansion of government interventionism. As Mises (1998, p. 865) put it “The development of a profession of economists is an offshoot of interventionism.” The reason for this inevitable connection rests on two facts. On the one hand, the State requires a class of intellectuals and specialists for designing, implementing, and providing rationalizations for various interventions into the market

economy. On the other hand, those intellectuals who seek the regular income and prestige that accompany the professionalization of their discipline are ever ready to oblige, because the ability of an intellectual to earn his living researching and writing in his chosen field on the free market is always precarious at best. As the interventionist State expands, it reinforces the need for trained experts and the university system obtains increasing subsidies from government to initiate and expand graduate programs that will provide such personnel. The lucrative positions in these programs are naturally bestowed on those economists who spearhead the drive to professionalize and are, therefore, most active and outspoken in their support of government interventionism.

In the U. S. the most extreme and thoroughgoing instances of domestic interventionism occurred during the two World Wars of the twentieth century. It was therefore no surprise that the movement to professionalize American economics, which began in the 1880's, experienced quantum leaps during these war crises. For when the State goes to war it needs professional expertise to plan and direct the massive mobilization of the resources it requires. This translates into a cornucopia of lucrative and prestigious jobs for economic experts and specialists in the bureaus and advisory boards of the political planning apparatus that centrally directs the war economy. In his brilliant book on the professionalization of American economics, Michael Bernstein (2001, p. 89) identifies the central role played by World War II in the ultimate success of this movement, perceptively observing:

Under the novel and unrelenting demands posed by national mobilization, modern economic theory had proved its worth. . . . Not individualism but rather

statism provided the special circumstances within which the high hopes and great expectations of generations of professionalizers could be realized. . . . It is one of the great ironies of this history that a discipline renowned for its systematic portrayals of the benefits of unfettered, competitive markets would first demonstrate its unique operability in the completely regulated and controlled economy of total war.

Of course their wartime experience led economists to recognize the potentially great material benefits that would accrue to them from a permanent alliance between their profession and the centralized American State. They responded by formally reorganizing the discipline and reshaping its educational methods and requirements so as to accommodate the prospective needs of the emerging postwar “national security state.” Bernstein (2001, pp. 89-90) gives an incisive account of how the American economics profession finally established itself in service to a centralized and interventionist leviathan State:

World War II provided the first systematic demonstration of the beneficence to be won from the largesse of the central government As a matter of course, there emerged a determination to evaluate and reconfigure educational programs in the field, more rigorously stipulate its varieties of expertise and methodologies, and pursue consensus about its central principles and policy orientations. That is to say, that out of the crucible of national mobilization came the beginnings of a professional identity and self-confidence

that, while resolutely sought after since the late nineteenth century, had, up to that point, been elusive and fleeting.

Bernstein (2001, 91-108) goes on to identify some of the arcane sub-disciplines within professionalized economics that were developed in response to the needs of the emerging American super-state during the Cold War era which helped to maintain it on a permanent war footing. The “decision-making sciences” such as linear programming and operations research were developed during World War II to solve the logistical problems associated with supplying overseas troops in different theaters of operation. Game theory was reoriented and refined to assist in the solution of strategic military problems associated with the Cold War conflict—with generous funding from the Department of Defense and especially the Office of Naval Research. And the development of both mathematical growth theory and the practical application of Keynesian macroeconomics embodied in the Kennedy-era New Economics were in large part stimulated by Cold War concerns. As Bernstein (2001, p. 108) notes with regard to the Keynesian New Economics: “American economists found themselves poised to participate in the realization of some of the most significant statist aims of the cold war era . . . a vigorous national economy was essential both to equip the armed forces and to demonstrate the superiority of American capitalism.”

The remarkable proliferation of hyper-specialized fields that occurred during and after World War II led to a disintegration of economic theory, signified by the disappearance of the general economic treatise (Rothbard 2004, p. xc-xci). No longer was there an integrated system of general economic principles that was held in common

and applied to the analysis of all policies and problems by those who called themselves economists. Now each sub-field of research had its own special theory which was more or less sealed off from general economic theory. Even general theory itself was now compartmentalized into microeconomics and macroeconomics.

This specialization or, more accurately, disintegration of economics compounded by the postwar trend toward a positivist approach to economic theory, whether of the Samuelsonian or Friedmanite variants, destroyed the formidable barrier that had previously confined professional economists with no faculty or vocation for theoretical research to economic history and descriptive economics. They now began to abandon these peripheral areas and to invade what was once the domain of economics proper in droves. Though failing to master the great praxeological system of economic theory that had taken shape in the interwar years, these postwar economists could now undertake research in the splintered, ultra-specialized areas of growth theory, labor economics, industrial organization, oligopoly theory and so on *ad infinitum*. However, the unrealistic theoretical models constructed by professional economists then and now can never elucidate the essential laws governing the actual market phenomena associated with their disjointed fields of research. For as Mises (1998, pp. 687) pointed out: “The economist must never be a specialist. In dealing with any problem he must always fix his gaze upon the whole system. . . . Economics does not allow of any breaking up into special branches. It invariably deals with the interconnectedness of all the phenomena of action.”

Our discussion thus far leads to an important general point. The economics profession is a fiat phenomenon in the same sense as inconvertible paper money. Neither

would or could exist on a market free of specific pattern of government interventions. Government cannot *directly* command and coerce a newly issued fiat money into circulation in the market economy. As Rothbard (1990a) has taught us, government must first impose a series of interventionist measures such as legal tender laws, repeated suspension of convertibility between paper promissory notes and the underlying gold money, the refusal to enforce gold clauses in private contracts, the banning of the private ownership of gold, etc. These interventions distort market processes and prepare the way for the gradual emergence of fiat money. The same is true of the emergence of the economics profession. Government has no power to directly design and establish a profession with its peculiar and intricately interwoven customs, conventions, research culture, and institutional infrastructure. Nonetheless, a natural vocation like economics can be transformed into a profession as a result of the distortion of market processes and the disturbing of property arrangements caused by wars, political usurpation and subsidization of higher education, and the establishment of centralized bureaus and agencies to implement and oversee economic interventions. The medical profession is therefore a *natural* profession that would exist on a free market because it has a natural clientele; the economics profession, along with most other social science professions, is a *fiat* profession that has no free market clientele and would exist as a truth seeking vocation in the absence of a particular historical pattern of government interventions.³

To sum up: the vocational economist strives to master the system of economic theory as handed down by the great system builders and innovators of the past. Once this mastery is achieved, then, depending on his ability, he is poised either to expound and apply this theoretical system, to contribute a few important innovations, or to present a

³ I am very grateful to Guido Hülsmann for calling this general implication of my argument to my attention.

thoroughgoing reformulation that embodies a number of major advances. There are very few individuals who are capable of successfully embarking on even the first of these paths. Moreover, regardless of which path is taken, the vocational economist is driven forward by a thirst for truth which is never slaked. He seeks to know ever more about what Rothbard (1997, p. 262) termed “the structure of reality as embodied in economic law.” Furthermore the extroversive labor he performs for a livelihood, regardless of the field, is merely a means to this and other consumption ends that rank high on his value scale. All other things equal, he is indifferent toward a position in academia except as it provides a more efficient method of pursuing his vocation. Public acclaim and the recognition of his peers, if they come, are not sought after by him but are at most valued byproducts of his activities. Finally, the vocational economist measures progress in his discipline by the quantity and quality of minds that have mastered economic theory, because his own search for truth is facilitated by subjecting his work to the critical evaluation of others pursuing the same calling.

Contrariwise, the professional economist aims, in his research activities, at a number of extroversive ends. These include the approbation of his colleagues, public fame, intellectual influence in shaping government policies, professional advancement and prestige, and, of course, raw power and money. To a great extent, these ends are attainable only with government subsidies and largesse and so he naturally supports an expansive and interventionist state. His natural roosting place, to which he continually returns after his lucrative stints in government service, nonprofit think tanks, and international bureaucracies are the large universities that are subsidized or directly controlled by government. He views progress in economics as a matter of the

multiplication of its sub-disciplines and specialized bodies of theory, the increase of the sheer number of bodies in graduate programs, and especially the expansion of opportunities to obtain lucre and positions of power in advising the interventionist, Welfare-Warfare State. As Mises (1998, p. 865) perceptively noted as early as 1949, professional economists “rival the legal profession in the supreme conduct of political affairs. The eminent role they play is one of the most characteristic features of our age of interventionism.”

After World War II and before the modern Austrian revival had gathered a full head of steam in the mid-1980's there were very few vocational economists left who had mastered the praxeological system and were actively contributing to economics. The most notable among them were Mises, Rothbard, Israel M. Kirzner, Henry Hazlitt, Hans F. Sennholz and William H. Hutt. Almost all others calling themselves economists were professional economists in the mold of Werner Sombart and Paul Samuelson.

3. The South Royalton Conference: Boon or Bane?

As I have argued in earlier work (Salerno 2002), the renaissance of Austrian economics began in 1962 with the publication of Murray Rothbard's *Man, Economy and State*. This magisterial treatise contained a systematically elaborated and realistic structure of economic theory that incorporated the insights and theorems of dozens of earlier economists of various nationalities who had worked in the Austrian tradition from 1871 through the 1950's. With this work of creative synthesis, Rothbard reshaped and advanced the praxeological paradigm that originated in the works of Menger and Böhm-

Bawerk and was first clearly delineated by Mises. In fact Rothbard was the first economist in the history of the discipline, including Mises himself, to succeed in methodically deducing the entire corpus of economic theory from the undeniable fact of purposive human action. By proceeding in this matter, he discovered new truths about economic reality. Rothbard (quoted in Stromberg 2004, pp. xxxiii-xxxiv, xli) explained his goal and method in writing *Man, Economy and State* in correspondence with the foundation funding his work:

The aim I set myself was to fulfill the essence of Mises's structure of praxiology [sic] by spelling it out, step by step, in one coherent integrated structure. I realized that it is possible to begin with one simple, self-evident assumption: *human existence*, and deduce all propositions of economics from it. The essence of human existence is *human action*, and once action is defined, all further [economic] truths can be deduced by logical implication. . . . However, as I have been proceeding, the necessary elaborations on the sometimes sparse framework of Mises has led inevitably to new and original presentations. [The bracketed interpolations were supplied by the editor of the correspondence.]

Perhaps Rothbard's greatest achievement in this work was his presentation of an integrated theory of production that embodied the pure time preference theory of interest of Frank A. Fetter and Mises, the time structure of capital analysis developed by Böhm-Bawerk, Knut Wicksell and Friedrich Hayek, and the marginal productivity theory of factor pricing expounded at the turn of the century by John Bates Clark and Thomas

Nixon Carver. This theory spanned five chapters, comprising over 300 pages and almost 30 percent of the treatise. Rothbard had very little guidance from his predecessors and contemporaries, including Mises, in systematically elaborating production theory and had to employ the step-by-step procedure of logical deduction from first principles and realistically chosen subsidiary postulates provided by the praxeological method. Wrote Rothbard (quoted in Stromberg 2004, xlix-1):

[A]s my work evolved, I found that there was a lot of gaps in the economic organon that I had to fill in myself. Going step by step in logical progression turned out to involve a good deal of original contribution on my own part. . . . Mises has very little detail on production theory, and as a consequence it took me many false starts, and lots of what turned out to be wasted effort, before I arrived at what satisfied me as a good Production Theory. (It's involved emancipation from 90 percent of current textbook material).

It is clear from his review of *Man, Economy, and State* that Mises (1990, pp. 155-57) also saw Rothbard's work as a major advance in and a new point of departure for praxeological economic theory:

The main virtue of this book is that it is a comprehensive and methodical analysis of all activities commonly called economic. . . . In every chapter of his treatise, Dr. Rothbard adopting the best of the teachings of his predecessors, and adding to them highly important observations . . . develops the correct theory. . . .

Henceforth all essential studies in these [praxeological] branches of knowledge will have to take full account of the theories and criticisms expounded by Dr. Rothbard.

Rothbard (2000; 1990a) followed up this path-breaking treatise with two other works one year later, *America's Great Depression* and *What Has Government Done to Our Money*. The former book applied the Austrian theory of the business cycle to explaining the causes of the Great Depression in the U.S. supplemented by a critique of the perverse government policies that deepened and prolonged it. The latter work was a slim booklet intended as a primer on Austrian monetary theory, but containing an original praxeological-historical explanation of the displacement of gold by paper fiat money. In 1970, Rothbard (2004) published *Power and Market*, which presented a comprehensive praxeological analysis of the entire range of government interventionism.

These four books were directly responsible for rekindling interest in Austrian economics among the generation of young academics and graduate students who reached maturity from the mid-1960's to the early 1970's. These young "Rothbardians" made up the majority of the thirty or so individuals who gathered at a week-long conference in June 1974, in the small rural town of South Royalton, Vermont, to listen to lectures by Rothbard, Kirzner and Ludwig Lachmann. The "South Royalton conference," as it came to be called, was the first conference on Austrian economics to be held in North America and was an exhilarating experience for those attendees like myself who had been studying the great Austrian texts in small groups or in isolation. We now had the chance for the very first time to intermingle with a large group of our peers and to meet and

converse with the living masters of Austrian economics. The personal relationships established at the conference with other attendees and with the lecturers inspired many of us to pursue our vocation with a renewed sense of purpose and enthusiasm. The vigorous scholarly interchange both during and outside the formal lecture sessions that repeatedly referred to the classic works of Austrian economics also imbued us with an intangible but real sense that we were part of a vital tradition, using the same intellectual means to strive together toward the common goal of discovering truth. The result was the coalescence of a self-conscious and living Austrian movement, the first since the early 1930's.

However, while these benefits should not be underestimated, the conference introduced a serious distortion into the future development of Austrian economics that went unrecognized for years. As I mentioned, by 1974 the Austrian revival was already well under way, inspired by the works of Rothbard who had reformulated and advanced the praxeological paradigm on many fronts. The four lectures he presented at the conference aimed at restating and refining the paradigm in the areas of methodology, monetary theory, the prehistory of Austrian economics and the relationship between economic theory and value judgments in the advocacy of economic policy.⁴

Israel Kirzner also had painstakingly mastered the praxeological system as Mises's graduate assistant in the 1950's. He contributed substantially to its advancement in two books. In *The Economic Point of View*, published in 1960 and based on the dissertation he had written under Mises, Kirzner (1976) carefully compared and contrasted Mises's praxeological approach to economics with all other approaches, past and present. In his 1973 volume on *Competition and Entrepreneurship*, Kirzner (1973)

⁴ All the lectures given at the South Royalton conference and referred to in this paper were later published in Dolan 1976.

employed a reformulated version of Mises's concept of entrepreneurship to demonstrate the inadequacy of neoclassical price theory, which was based on static equilibrium and offered no scope for the real world phenomena of error, uncertainty and profit. Kirzner's mastery of both Austrian economics and neoclassical price theory and his tactful yet unsparing criticism of the latter served as a bridge to neoclassical economists who wished to learn about and incorporate Austrian insights into their own work. Following up on the strategy of this book, Kirzner's lectures at South Royalton were oriented toward rendering Austrian insights and critiques comprehensible and palatable to open-minded neoclassical economists. To what extent this strategy has succeeded cannot be considered here.

The third lecturer, Ludwig Lachmann, although a highly intelligent and erudite man, was not in any sense a master of systematic economic theory. Lachmann's intellectual influences in economics were eclectic, even incongruous, and included the historicist Werner Sombart his dissertation supervisor and the brilliant sociologist Max Weber, a much more reasonable adherent of the German historical school. He was also influenced in capital and business cycle theory by Friedrich Hayek, whom he served as a graduate assistant in the 1930's and by a fellow Hayek graduate assistant, George Shackle (1983, p. 7), later a self-proclaimed "nihilist" in economic theory. Lachmann also adopted Keynes's view of expectations which conceived them as autonomous, volatile and not rationally grounded in the entrepreneur's actual experiences in the market process. In the 1950's, Lachmann (1978) did publish a very valuable monograph on *Capital and Its Structure*, which emphasized the essential heterogeneity of capital goods and the role of the price system in guiding entrepreneurs to continually recombine capital

goods into new structures in response to changes in the economic data.

Unfortunately, Lachmann's lectures at South Royalton were devoted to propounding a view of the market process as driven by uncaused, unpredictable and "kaleidic" changes in the pattern of individuals' knowledge as well as a wholesale rejection of the use of the general-equilibrium concept in economic theory, even its limited and carefully circumscribed role in praxeological analysis.

Thus the main problem with the conference was that it served to elevate an eclectic and idiosyncratic thinker with historicist leanings to the position of a "master" of Austrian economics on a par with Rothbard and Kirzner. This produced unforeseen and negative long-run consequences for the Austrian revival. First, Lachmann's newly exalted status and his personal charisma as an erudite, European-trained professor gave his writings an undeserved prominence that diverted attention away from the valuable works of established Austrian economists who had demonstrated a clear and masterful grasp of the praxeological system. These included especially Henry Hazlitt, Hans Sennholz, and William Hutt.⁵ Hazlitt and Sennholz were now dismissed as an "economic journalist" and a "popularizer," respectively. Hutt was relegated to the category of "semi-Austrian," despite the fact that that by 1963 he was writing economic theory as a "praxeologist," which he defined as "the economist who has grasped the principal lesson of Mises' *Human Action*" (Hutt 1963, p. 136).

A second and more pernicious effect of Lachmann's unwarranted influence was that some young Austrians abandoned their immersion in the rigorous study of praxeological economic theory to write facile critiques of neoclassical economics. It also led them to a nihilistic criticism of the use of equilibrium constructs in the writings of

⁵ Some of the important contributions of these men to the Austrian canon are cited in Salerno 2002.

Rothbard and Kirzner. This resulted in an internecine controversy over the meaningless question of whether equilibrating forces or disequilibrating shocks dominated the market process.⁶ Worse yet, the young Lachmannians naively believed that the neoclassical establishment would see the light of reason and happily concede the truth of their arguments. When they finally learned that the neoclassical establishment would never abandon its attachment to general equilibrium, they altered their strategy and began writing articles attempting to integrate piecemeal Austrian theoretical insights into specialized areas of neoclassical economics. Unfortunately, the hyper-mathematization of neoclassical theory that began in the early 1980's rendered this strategy lame.

After long and bitter experience, these Austrians finally learned that there was no place at the professional table for truth seeking economists. In the meantime they had failed to cultivate the mastery of praxeological economics necessary to do serious work in the paradigm, which they now declared to be a “closed system.” As a result their, goal imperceptibly shifted from pursuing economics as a vocation to maneuvering for a position in the economics profession. This was the unfortunate legacy of the South Royalton conference: it transformed the goal of many Austrians from seeking truth to seeking advancement in a fiat profession; correspondingly, it revolutionized the standard of progress for Austrian economics. Before the South Royalton conference, the standard was clearly the number of independent thinkers who had been stimulated to recognize and follow their inner vocation to perform research into the structure of economic reality.

⁶ I say “meaningless” because the real-world market economy is never in or moving toward the state of general equilibrium or what Austrians call the “evenly rotating economy,” which is a fictional state imagined by the economist as an analytical convenience in solving the problem of distinguishing profit from interest. All that exists in reality is a market process unfolding in history, driven by entrepreneurs some of whom are more successful than others in anticipating and adjusting production to ceaseless changes in future market conditions. The incessant change and pervasive uncertainty that characterizes the market economy is not “disequilibrating,” it is simply a brute existential fact; neither can the forecasts and price appraisements of entrepreneurs be termed “equilibrating”—they are simply right or wrong.

As the culture of Austrian economics evolved in the decade after South Royalton, the standard of progress was gradually transformed into the number of positions the South Royalton generation and their students obtained in research universities. Of course, professional advancement and positions at Ph.D.-granting institutions are desirable to the vocational economist as *means* for awakening other potential truth seekers to their vocation for economic research.

The generation of Austrian economists that came immediately after the South Royalton generation was even more prone to erroneously view economics as a profession and to assess progress in Austrian economics as the improbable acceptance of their ideas and writings by the statist economics profession. The main reason for this was that they were too young to have had direct exposure to the pre-South Royalton milieu of the Austrian revival, whose formative influence was clearly and overwhelmingly Rothbardian. To many of this generation, the South Royalton conference and the awarding of the Nobel Prize in economics to Hayek a few months later marked the inception of the Austrian revival.

Ironically members of the post-South Royalton generation are now counseling younger Austrians to retreat from economics proper to the backwater provinces of atheoretical economic history and descriptive economics in order to “climb the professional ranks.” “Theory,” they say, “is no longer something that attracts the best and the brightest. Instead, the best and the brightest are attracted to empirical puzzles and data analysis.” To be an “impact player” in the profession the aspiring Austrian is advised to “look out the window and not at the blackboard.” In other words, one must “jettison doing conceptual economics and focus on applied and historical topics.” Thus

from now on Austrian economics is to be strictly “empirical economics, which . . . means really good historical scholarship and contemporary public policy.” Thus over one hundred years after the Austrian school vanquished the German historical school in the *Methodenstreit*, the heirs of Menger are advised to forsake their vocation and surrender to Gustav Schmoller’s ghost in order to become members of a fiat profession like Werner Sombart and Paul Samuelson.

Instead of an extended critique of this absurd and self-defeating strategy, I will simply counter with the advice of the vocational economist who reshaped the modern Austrian paradigm. When asked in an interview “What should young Austrians be concentrating on?” Rothbard (1990b, p. 15) replied, “Adding to the theoretical edifice.... Most importantly, we should never stop refuting mainstream economics.”

4. The Grove City Conference and the Death of the Professionalist Diversion

In fact there has been a great deal of progress in Austrian economics in the last twenty years thanks to the founding of the Mises Institute in 1983, which has supplied the material resources and institutional infrastructure required by those who pursue economics as a vocation and who wandered in the wilderness in the decade after the South Royalton conference. Even more importantly, the Institute’s prodigious publications and its plethora of conferences, workshops, fellowships and online resources have assisted an ever growing number of young truth seekers from all over the world in hearing and heeding their inner calling to economic research. Judging by the last Austrian Scholars Conference in March 2004, scholars from around the world who are

performing the introversive labor of advancing, applying or devising new methods of expounding the praxeological paradigm number in the hundreds. None is or need be another Ludwig von Mises or Murray Rothbard; system builders in an aprioristic science are born once or twice a century. But this is no cause for pessimism.

Contemporary vocational economists who have painstakingly worked their way up and onto the shoulders of Mises and Rothbard and who deserve to be called masters of their subject are every day perceiving new truths about complex and evolving politico-economic reality that go significantly beyond these two great system builders. In fact, far from constructing a “closed system,” as some Austrians have claimed, Rothbard (1989) enthusiastically welcomed and endorsed innovations in the praxeological paradigm that corrected or went beyond his own work and that he began to happily witness in the late 1980’s. Thus he wrote in correspondence in 1989: “I welcome change and advances in Austrian theory provided they are true, i.e., that they work from within the basic Misesian paradigm. So just as I think I have advanced beyond Mises in developing the Misesian paradigm, [other] people . . . have advanced the paradigm still further and great!”

Moreover in spite of—or perhaps because of—unswerving dedication to their vocation many Austrian economists have obtained positions in academia where they are in a position to awaken and guide more young minds along their vocational path. The Austrian Student Scholars Conference this weekend is living proof of the success of their efforts. You are all here because you are eager to embark on a vocation in Austrian economics. What from now on shall be called the Grove City conference marks the demise of the *professionalist diversion* in Austrian economics that grew out of the South

Royalton conference and that nearly destroyed the Austrian revival. It is only fitting that Grove City host this historic event because it was the home for so many years of Hans Sennholz, one of the greatest vocational economists of our era.

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