

FREEMarket

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A VOCATION IN AUSTRIAN ECONOMICS

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The Summer Fellowship Program has grown by leaps and bounds since its founding by Professor Guido Hülsmann in 2000. This year the program includes eighteen young men and women from the United States, Canada, Germany, Spain, France, Turkey, Denmark, Poland, and the Czech Republic.

Their disciplines range across the social sciences from economics and history to political science and sociology, although most of the fellows are pursuing graduate degrees in economics and aspire to a vocation of teaching and writing Austrian economics at an academic institution. What is especially interesting and instructive is that they have adopted widely divergent educational strategies in fulfilling their aspirations. Here are three examples.

Dave Howden is in his second year as a Mises summer fellow. He is a Canadian who majored in finance as an undergraduate. After graduation, he began work with a mutual fund, and later, with a currency-trading company in Canada. He soon found that there was limited scope for the concepts that were taught in his mainstream economics and investment classes.

It was during this time that he started a more intense study of Austrian business-cycle theory in his spare time, in the hope of gaining an understanding of the seeming anomalies in the investment environment that could not be explained by most mainstream analysis. His reading included Jesús Huerta de Soto's *Money, Bank Credit, and Economic Cycles*, and he was profoundly impressed by its comprehensive and integrated analysis of Austrian monetary, banking, and business-cycle theory.

In fact Dave was so inspired that he sent an email to Huerta de Soto to express his great pleasure in reading the book. He was delighted when Huerta de Soto replied cordially and eventually invited him to study in the new masters and PhD programs at the Universidad Rey Juan Carlos in Madrid, Spain. Impressed that the programs placed a heavy emphasis on Austrian economics, Dave decided to quit his job and leave Canada for Spain to pursue his studies.

Looking back on his choice from the perspective of an ABD who will soon go on the job market, Dave has no regrets but understandably is experiencing some trepidation ➞



regarding his employment opportunities in North American academia. However, because fluency in Spanish is a requirement of the Rey Juan Carlos program, Dave is also able to take of advantage of academic employment opportunities in Spain and other Spanish-speaking countries.

Dave points out that, in addition to the uncertain employment situation and the necessity of attaining fluency in Spanish, English-speaking students who follow his strategy should expect other hardships. In particular there is little scope for funding for European graduate students, so there is the financial burden to be considered. Fortunately tuition rates are among the lowest in the world, making this burden much more manageable.

Nevertheless, Dave considers the benefits of his choice to far outweigh the costs and enthusiastically endorses the program, stating:

“In Madrid, I have found a home among the greatest core of Austrian economists in existence. Not since the Vienna circle of almost a century ago have this many common minds been linked together to further our science. I am exposed to cutting-edge ideas on a daily basis, and the program is receiving increased recognition—something which I am more than ecstatic to be a part of. In addition to the academic program, I have had access to the wonderful free-market oriented think tank Instituto Juan de Mariana, as well as European conferences that are quite sympathetic to Austrian ideas. My future may be highly uncertain, but in the meantime, there is much to be enjoyed in the present. Thankfully, time preference is always greater than zero.”

Although it may not work for everyone, the strategy Dave chose to pursue his

vocation in Austrian economics has, up to this point, paid handsome dividends. He won first prize in the oral examination at Mises University in 2008 and has won a number of first- and second-place awards sponsored by Austrian scholarly societies for graduate research papers. He has published three articles in refereed journals and has received revise-and-resubmits for two others.

He is currently writing his dissertation, “The Efficient Market Hypothesis and the Capital Asset Pricing Model: New Perspective on Old Theories,” in which he applies insights of Mises and Shackle to develop an alternative to the risk/reward-trade-off view underlying all standard financial models. He is already a creative and productive Austrian economist, one that many senior Austrians consider to be in the top two or three of the up-and-coming generation.

Like Dave, Edward Perry is also a Mises summer fellow for a second year. Ed received his BA in economics with a minor in mathematics at St. Norbert College in Wisconsin. After graduation, he enrolled in the two-year master’s program in applied economics at Marquette University, which he completed in May of this year. The primary focus of this program was econometrics with core courses in micro and macro as well.

It was not until his first semester in the master’s program in a microeconomics course that he stumbled upon Mises and Austrian economics—as a result of a discussion of a formula connected to Say’s Law. Interested in learning more about this law, Ed began reading some of Say’s works, both at the library and on the Internet, and eventually discovered the Austrian School and Mises.org. Since then he has immersed himself in

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reading Austrian literature and identifies Menger's *Principles of Economics* and Rothbard's *Man, Economy, and State* as having had the greatest influence on his development as an economist.

The discovery of Austrian economics intensified his interest in pursuing economics as a vocation, so he decided to apply to PhD programs in economics rather than search for a job in the area of applied business economics. Given his prodigious math skills, Ed chose the strategy of enrolling in a standard economics program. He applied to and was accepted by a few very good economics programs and, after weighing his options, he decided to enroll in the PhD program at Indiana University in Bloomington. Ed was impressed by the fact that it was academically solid and active and its faculty genuinely interested in their students' welfare.

This summer Ed is investigating whether certain problems called "NP-Complete" problems—a large class of problems treated in computer science whose optimal solution for large amounts of inputs is undiscoverable—can be related to the problems of calculation

that a central planner would experience in a socialist economy (even assuming the planner had at his disposal the value scales and know-how of all the individuals in his domain).

Ed's research program demonstrates the hollowness of the claim made by some that the praxeological economics of Menger, Mises, and Rothbard is a "closed system" and that research in Austrian economics should be restricted to applying and illustrating theory in the form of historical case studies.

Josh McCabe is a first-time Mises summer fellow, who did his undergraduate work in political science at Emmanuel College in Boston. He characterizes himself at the time as a typical left-liberal college student until a friend introduced him to *Capitalism and Freedom* by Milton Friedman. His first introduction to the Austrian School was by way of Murray Rothbard's *America's Great Depression* and he became fascinated with macroeconomics for a short time, but eventually became much more interested in the micro aspects of economics. Because he was always intrigued by race and ethnic relations he wrote his senior thesis on the

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economics of discrimination based on the works of Gary Becker.

Josh decided his vocation was to teach and research at the university level, and he began looking into political science once again. He applied to several programs and ended up enrolling in an interdisciplinary masters program in regional economic and social development at the University of Massachusetts, Lowell, because it offered him generous financial aid. At UML, most of the faculty were very open to his viewpoint and actively engaged him.

In particular, two courses in sociology piqued his interest. The first was an organizational-theory course with William Lazonick. Despite the fact that Lazonick was dismissive of Austrian economics, the readings in his class gave Josh the idea that one could pursue economic scholarship through alternative fields such as organizational theory. The second course was a directed study in urban sociology with Chris Tilly (son of the late Charles Tilly, a famous Marxist-oriented sociologist). It was in Tilly's class that Josh learned to ask leftist questions and look for libertarian answers. He thus decided that sociology as a discipline provided the questions that held the most interest for him. Josh responded to one of these typical leftist questions with a libertarian answer in his master's thesis, "Black Railroad Workers 1890–1960: A Critical Reassessment."

As Josh puts it, "More than one professor told me that a working-class white guy with an interest in race, labor, and Austrian economics would have trouble in many programs. I applied to two top schools and four middle-range schools, but didn't hold my breath since I had a low GRE math score. To my surprise, I was accepted to my top choice (SUNY-Albany, ranked 25th) with full funding."

He has already visited and talked with many faculty members and discovered that scholars in the better schools tend to be open to ideas from all over the spectrum, including the libertarian end, as long as they are presented in a scholarly

manner. As with any discipline, he has come across intolerant ideologues or narrow-minded "activists" in sociology, but he has found that the stereotype of the mushy-brained left-wing sociologist was false.

More importantly, for students whose aim is to pursue economics as an academic vocation but whose aptitude or disposition prevents them from surmounting the entry barrier of mathematics, Josh advises, economic sociology has become one of the major subfields in the discipline in recent years with its own rankings in *US News & World Report*. Unlike economics, which is dominated by the neoclassical framework, sociology is open in terms of framework and methodology. Cross-citations in both fields are not uncommon today. There has even been talk of economic sociologists being top contenders for the Nobel Prize in economics.

Josh's academic background in economic sociology has led him to investigate the economics of discrimination from an alternative perspective to the standard Beckerite treatment. He has just completed a draft of a paper on "The (Austrian) Economics of Discrimination," in which he frames racial discrimination as a Hayekian knowledge problem as it relates to network theories.

Dave, Ed, and Josh are following different paths in their pursuit of the same goal, a vocation in Austrian economics. The Mises Institute's Summer Fellowship Program exists to assist these young trailblazers in successfully completing their journeys and to lend support to the many others who will follow them.

Working closely with other fellows and resident Mises faculty, sharing concerns and solutions, networking as a Mises summer fellow is a big leg up for the young Austrian in meeting the challenge of launching a successful career in an academic world that is again growing increasingly hostile to the market economy and society. ■

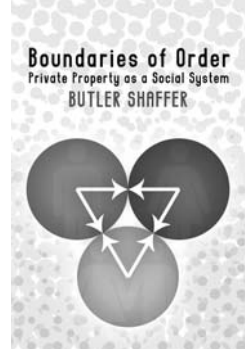
News from the Institute

New Books

Every once in a while, a treatise on libertarian philosophy appears that presages a new way of thinking about politics and economics. Mises's *Liberalism*, Rothbard's *Ethics of Liberty*, and Hoppe's *Democracy—The God That Failed* come to mind.

Boundaries of Order by Butler Shaffer is in that tradition; scholarly yet passionate, and a completely fresh look at a marvelous intellectual apparatus by a mature intellectual who has been writing on law, economics, and history for four decades. It is the treatise on liberty and property for the digital age, one written in the Rothbardian/Hayekian tradition with a consistently anti-state message but with a unique perspective on how the great struggle between state and society is playing itself out in our times.

Its value added is a vision of the completely free society that is idealistic, practical, and thoroughly optimistic. In a through-composed work that builds from foundations all the way through an inspiring conclusion, he presents a vivid portrait of how human cooperation within a framework of liberty and private property yields results that produce human betterment in every conceivable way. Just as powerfully, however, he shows that right now, even amidst an epoch of despotic state control, we owe all that we love in the course of our daily lives to the institution of liberty. **To order, see Mises.org/store.** ■



THE DEFLATING BUBBLE

Douglas E. French

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There is an epidemic of bankruptcies: Circuit City, Sharper Image, Chrysler, GM, Goody's, Gottschalk's, Comp USA, Levitz Furniture. Not to mention all the local businesses that don't make the news when they close up shop. And the rash of corporate bustouts is far from over according to consulting firm Bain & Company, who predicts nearly 100 large (\$100 million or more in assets) corporate bankruptcies by next year.

We're in a period of severe losses—a cluster of errors, as Murray Rothbard described it—with 53 banks having failed already this year, and many more to come.

But as gruesome as the economic news sounds, Rothbard explained that this is the recovery: “The liquidation of unsound businesses, the ‘idle capacity’ of the malinvested plant, and the ‘frictional’ unemployment of original factors that must suddenly and en masse shift to

lower stages of production—these are the chief hallmarks of the depression stage.”

Many would like the boom to continue “where the inflationary gains are visible and the losses hidden and obscure,” Rothbard wrote. “This boom euphoria is heightened by the capital consumption that inflation promotes through illusory accounting profits.”

But the boom is where the trouble happens—when resources are directed into malinvestments and distortions occur—and trouble we’ve had this past decade with a Capital T. The M-2 money supply increased 53 percent since year 2001, while at the same time total bank loans doubled and bank real-estate loans increased over 150 percent. The mistakes of bad entrepreneurs have been hidden, employment was directed to wasteful and unneeded occupations, unsound projects were built and business risk was ignored.

“The boom produces impoverishment,” wrote Ludwig von Mises in *Human Action*. “But still more disastrous are the moral ravages. It makes people despondent and dispirited. The more optimistic they were under the illusory prosperity of the boom, the greater is their despair and their feeling of frustration. The individual is always ready to ascribe his good luck to his own efficiency and to take it as a well-deserved reward for his talent, application and probity. But reverses of fortune he always charges to other people, and most of all to the absurdity of social and political institutions. He does not blame the authorities for having fostered the boom. He reviles them for the inevitable collapse.”

Many bankers continue to contend that their banks are sound, protesting that they didn’t make any subprime loans like those big Wall Street banks. But the cluster of errors doesn’t contain itself to one asset. Low interest rates spur consumers and investors to buy houses—in some cases creating housing shortages and exploding prices, which, in turn, cause developers to buy land and begin the lengthy development process just

described. After money supply increases by way of credit expansion, businesses malinvest by “overinvesting in higher-stage and durable production processes,” Rothbard explained in *Man, Economy, and State*.

But the current crisis doesn’t end with residential real estate. Commercial-real-estate developers follow roof tops. When they see homes being built, they forecast that those homeowners will need places to shop and places to work—so the residential-construction boom inevitably leads to a commercial-property boom: office and industrial buildings as well as shopping centers. All those new homeowners will need to buy everything from groceries to garden hoses. Plus, new title company, mortgage loan, construction, and other real-estate-dependent jobs are created, meaning more office and industrial space will be required.

A contraction of credit and liquidation of assets is exactly what would complete this recovery. Failing real-estate prices, business failures, and high unemployment signal that the economy is desperately trying to heal but the Fed is fighting valiantly to re-inflate, increasing its balance sheet 140 percent just to generate a 14 percent increase in the M-1 money supply. The folks at *Grant’s* estimate the federal response to the current downturn to be 12 percent greater than that to the Great Depression, which prolonged that recovery for a decade.

All of this government intervention will only spawn new malinvestments and later depressions. “It should be clear that any governmental interference with the depression process can only prolong it,” explained Rothbard “thus making things worse from almost everyone’s point of view.” Further delay of the readjustments will only lengthen the depression, postponing complete recovery indefinitely.

“The larger the scope of malinvestment and error in the boom,” predicted Rothbard, “the greater and longer the task of readjustment in the depression.” Government intervention on all levels guarantees that this will be a very long, bumpy recovery. ■

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