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Recollections of the 1974 South Royalton Conference on Austrian Economics

by Gary North, 1999

This essay deals with the first public event in the establishment of the Austrian School's status as an American movement: a scholars' conference held in South Royalton, Vermont in 1974. I am aware of no published account of the conference, so I thought that it might be useful for me to jot down bits and pieces of what I remember.

The Setting

As we drove into this quaint village, I did not actually see the sign that said, "You Have Just Entered the Twilight Zone," but we had.

The conference was held in this village, the scuttlbutt said, because the economics faculty of a prestigious not-quite-Vermont college had reneged on its prior authorization to allow the conference to be held on its campus. ("We finally looked up the name Von Mises, and we couldn't believe what we read!") This rumor may have been a blatant lie. It may have been that the Institute for Humane Studies got better rates here than anywhere else, once the Pahrump, Nevada motel deal fell through. In any case, there we were.

The conference was held at the South Royalton Law School. Anyway, that's what we were told the buildings were called. What I remember most about my room is the peeling paint. I remember thinking to myself, "I hope I never get treated by a graduate of the South Royalton Medical School." But my memory is fading – rather like the paint. You can ask Walter Block about his room.

Then there were the employees. I remember especially the cook and her son. We all had difficulty communicating with both of them. They moved in a strange manner. The cook kept telling us that we were not supposed to come into the dining room yet. Subsequently, there was considerable discussion by attendees about the peculiarities of the cook, the son, and the location. I don't recall who first made the comparison with the Twilight Zone. I do remember my comment. It just sort of popped out. "Everyone here seems to be practicing to become people." There was general agreement.

The Timing

The main lecturers were Murray Rothbard, Israel Kirzner, and Ludwig Lachmann. Henry Hazlitt was there. So was William Peterson, who had taught with Mises at New York University. Most of the attendees were budding economists, although there was an assistant professor of psychology, and I was officially an historian.

Mises had died the previous fall. Hayek had just won the Nobel Prize.¹ The timing could not have been better. Mises was gone, the victim of a professional blackout so successful that by

1970, it was no longer necessary. He had become, at best, a curiosity in the academic world, as if he had died back in 1940. He was no threat to the academic establishment any longer. "Mises? Mises? You mean the mathematician?" (His brother, Richard.) Now his successor was an official winner.

Here was a group of young scholars, all hoping to build their careers, with one of the movement's pioneers now a Nobel Prize winner. Well, a co-winner. The other co-winner was Gunnar Myrdal, the old socialist.² (What the two had in common was an ability to write intellectually compelling prose without any equations – a skill already regarded by the profession in 1974 as a personal idiosyncrasy of an older generation.) With Hayek in the limelight, there was now at least an outside possibility that attendance at this conference would not become an act of career *hara-kiri*.

By 1974, the Ph.D. glut was five years old. The supply of Ph.D.'s was in no way related to demand after 1968. The academic system keeps producing them because funding to produce Ph.D.'s is based on inputs rather than output, a kind of cost-plus system. Payment to university departments is weighted in favor of the number of graduate students enrolled – full-time equivalents (FTE's) – rather than on the market value of the finished products. The final consumers are the producers, who are rewarded by filling the conveyor belt. They have no incentive to stop producing. By 1974, it was obvious to everyone on the conveyor belts that there were few entry-level positions available. Misesian economists presumably understand the nature of supply and demand in a system where government funding is involved. They knew that the Ph.D. glut would not go away until the system of funding changed, which was not likely in 1974, and still has not, some 850,000 American Ph.D.'s later.³

The reader also needs to understand that in 1973/74, the only university that awarded a Ph.D. in economics that had even one Misesian Ph.D. on the graduate faculty was New York University. That lone star in the academic heavens was Israel Kirzner. Mises had turned out only four Ph.D.'s in the United States, and Kirzner was the only one working with Ph.D. students. Hans Sennholz was at Grove City College, Louis Spadaro was a dean at Fordham, and George Reisman was . . . actually, nobody seemed to know where he was. (He was at St. John's University.)

This was the first time that an assembly of young Misesians had come together to talk shop, or anything else. This was not another undergraduate conference sponsored by the Intercollegiate Society of Individualists, let alone Young Americans for Freedom. The IHS had sponsored a conference for graduate students in economics in 1969 in southern California, but the

lecturers had been mainly Chicago School economists. This was different. This was our very own conference. We got to listen to boring papers and everything. Like residents of South Royalton who were practicing to become people, we were practicing to become academics. (I never quite made it.)

Kaleidic Visions

Almost from the opening lecture, there was dissention. Milton Friedman was on the agenda early. He had a summer residence in Vermont, so he dropped in to give a speech. All I can recall about it was his statement that there is no Austrian economics or Chicago economics; there is only good economics and bad economics. This did not sit well with some of the conferees. I recall Richard Ebeling commenting negatively after the speech that this was not appropriate for a conference on Austrian economics. I had once heard Mises say something similar about good and bad economics, so I was not too upset. The statement was more naive than anything. In the division of intellectual labor, there are always more than two schools of thought, whether ecclesiastical or academic. All participants want to believe that there is only good and bad, and that they are on the side of the good. It is when armies recruit troops for battle, or parcel out the spoils, that the issue of the specific banner becomes important.

Friedman's speech was not the problem. What soon became the problem was the visible division in the ranks of the shepherds. Basically, it became a competition between Murray Rothbard and Ludwig Lachmann, with Kirzner serving as a stern moderator. But Kirzner had been instrumental in persuading New York University to hire Lachmann for the 1974-75 term. This was an institutional coup: two Misesians on one faculty. Kirzner was not in a position to come down too hard on Lachmann, a fellow Jew from South Africa, where Kirzner's father had been a rabbi.

When I listened to Lachmann's first speech, I was impressed by two things: (1) he was marching into the mists of something he called kaleidic perception; (2) he had the goofiest lecturing style I had ever encountered. I had heard a lot of goofy lecturers in my day, but this was something special. With my right index finger, I could type faster than he spoke, or so it seemed to me at the time. He also had a peculiar sing-song style, with his voice going up and down for no apparent rhetorical reason – kaleidic rhetoric, I guess.

This kaleidic business turned out to be a phrase from G. L. S. Shackle (SHACKel), a British economist. I had not heard of Shackle before I heard Lachmann's lectures. Shackle's big epistemological point is that human perception is not so much linear as momentary. Man lives in a series of moments. Each moment is autonomous, without a past or future. Meaning is momentary. The future as perceived in the present is like a child's kaleidoscope, in which patterns come and go without rhyme or reason. So, we cannot forecast the future. The future is not linear. It is accessed through a series of discrete moments. I am different now than I was when I started writing this essay, which explains why I use a word processor: low-cost revisions. Something like that.

It only occurred to me as I was writing this, a quarter century later, that when I think "kaleidic," it calls up an image of something flashy that is done with mirrors, but which loses its appeal as we mature.

Kant's Stepchildren

What Lachmann was promoting was half of Immanuel Kant's epistemology. Kant had propounded a fundamental dualism between deterministic cause and effect, devoid of freedom or choice, which he called the phenomenal realm, and a contingent realm of ethics, which is beyond the determinism of cause and effect, which he called the noumenal. I had read Richard Kroner's little book, *Kant's Weltanschauung* (1914), so I had at least an undergraduate's understanding of this dualism. What I was hearing was a call to march into the realm of the noumenal in quest of understanding, a pathway rarely frequented by econo-

mists except when fleeing from an unpleasant logical conclusion. Furthermore, Kant had always let us have our kaleidoscopes, but he always assumed that we would need only one, when contemplating ethics, God, and why some things are funny. (Example: "Why is Jerry Lewis funny to the French?" Kantian answer: "Because they are French – no logical reason.") We had our choice: right eye or left eye. The other eye could have fitted with a microscope, a telescope, or no scope at all. Lachmann was handing us a second kaleidoscope. "You need two of these; tape this over your other eye, and follow me."

It became clear before the week was over that Rothbard was having none of this. As a follower of Aristotle rather than Kant, he never spent time or page space discussing the noumenal. He was a throwback epistemologically. He was never one to do things half way. He was not recommending that we go back to Hume or even Locke (except when discussing the origin of private property: labor mixed with land). He wanted to take us back to Aristotle.

Prior to this conference, this epistemological split in the ranks of the Austrians had not been visible. Mises had been a Kantian, as his *Theory and History* (1957) revealed. So was Hayek, only Hayek did not know this yet.⁴ Rothbard's previous excursions into philosophy had been limited to defending Mises' *a priorism*. He did not get into the other philosophical and ethical issues: Mises' Kantianism and his utilitarianism. Two decades earlier, F. A. "Baldy" Harper – who was not bald – the founder of the IHS, had pressed Mises to defend his system ethically. Harper told me that he asked Mises, "If socialism were found to be more efficient than capitalism, would you still oppose it?" To which Mises answered: "But it isn't more efficient than capitalism." Harper said Mises would not go beyond this statement. Harper was an anarcho-capitalist and was interested in the ethics of the free market, or more to the point, the immorality of state intervention.

Rothbard was to follow this pathway, not Mises' utilitarianism. Rothbard opposed the state for ethical reasons. He followed Mises on the issue of the impossibility of rational socialist economic calculation, but his main reason for opposing socialism was ethical, not technical. This is why he applied the adjective "monstrous" to the state in his popular writings. Mises would never have done that.

Kirzner in 1974 was coming off his success in having the University of Chicago Press publish *Capitalism and Entrepreneurship* (1973). This was the first time that an American disciple of Mises had persuaded a major university press to publish a book based on a Misesian insight. But this insight was a limited one: defining of the entrepreneurial moment – the "ah, ha" of the realization of a profit opportunity – and developing its implications. The entrepreneurial moment, Kirzner argued, cannot be understood in terms of a purely linear rational process, or else the opportunity would be grasped by many participants in the market, and any economic return above the risk-adjusted rate of interest would disappear. Logic is good, but without the non-linear "ah, ha" event, the investor cannot safely get a return higher than T-bill rates.

If Kirzner's entrepreneurial moment of perception sounds a lot like Lachmann's moment of kaleidic perception, that is because they are both variants of Kant's noumenal realm – undetermined and indeterminate. The difference is, Kirzner's entrepreneur returns from the mountain top of the "ah, ha!" into the valley of opportunity. Lachmann's entrepreneur is forced to stagger blindly from one kaleidic moment to the next. Kirzner's entrepreneur sees himself on the road to easy street. Lachmann's entrepreneur sees himself on an unmarked highway.

Kirzner was not in a position to drum Lachmann out of the rag-tag Austrian School army. By the end of the conference, Rothbard had made it clear that he was ready to demote Lachmann at least to corporal.

The issue was subjectivism. How radical is it? Must it be

imported into every nook and cranny of economic analysis, substituting unconnected, autonomous, undetermined kaleidic links for complex chains of perception and reasoning? If we cannot make objective rational judgments, Rothbard asked, of what use is economics? I remember an exchange that Kirzner says he does not remember. Kirzner was discussing capital strictly in terms of the lone individual's value scale – a major theme in his book, *A Theory of Capital* (1966). There can be no collective imputation of value to capital, he said, according to economic science: the impossibility of making interpersonal comparisons of subjective utility. This was Kirzner's Robinsian moment: the appeal to Lionel Robbins' 1932 rejection of welfare economics⁵ – a position of radical subjectivism that Robbins abandoned under pressure from Roy Harrod in 1939, without explaining how or why.

Rothbard was familiar with Robbins' argument. He had used it in his classic essay on welfare economics in the 1956 *Festschrift* for Mises, *On Freedom and Free Enterprise*, edited by Mary Sennholz. But now he, like Robbins before him, drew back from the cliff of radical subjectivism. Rothbard asked Kirzner this question: "If a wine-loving Frenchman survived a nuclear war in a bomb shelter, and came out of it as the sole survivor and therefore the owner of all the wine of France, is he richer than a nation that had not been at war?" Kirzner would not take the bait. He continued to say that the economist cannot say which nation is richer, for there is no way to assess the wealth of nations. There can be no interpersonal comparisons of subjective utility. Rothbard thought this conclusion was ridiculous; the survivors would be richer. It may be ridiculous, but it is consistent with the subjective epistemology of Mises, Hayek, and Robbins – just not with their conclusions. The noumenal value scale of the observer cannot be challenged by the phenomenal value scale of the collective, since there is no such scale, scientifically speaking, according to strict subjectivism.

Shackle had taken this argument one step beyond into his own Twilight Zone. He argued that not only can there be no interpersonal comparisons of subjective utility, there can be no inter-temporal comparisons, either. The individual is not the same person today as he was last year or last week or yesterday. His valuations way back then (five seconds ago) may not be his valuations now. There is no cause-and-effect pathway from one noumenal moment to the next. The indeterminacy of moments of perception overcomes their linearity. Lachmann's position followed Shackle's.

The Legacies

The Austrian School in North America divided at this point. Some of the attendees followed Lachmann into the kaleidic mist. They have continued to defend the kaleidic moment, but this defense does not seem to add to anyone's ability to restructure economics into a more rationally compelling whole. This is because kaleidic moments are antithetical to rationalism and wholes. There is no kaleidic treatise on economics comparable to *Human Action* or *Man, Economy, and State*.

The Rothbardians have halted at the on-ramp of the kaleidic highway, but they have not answered Lachmann-Shackle in terms of Mises' view of subjective valuation. They have remained content with such Misesian concepts as capital investment as the basis of economic growth, and his suggestion that monetary expansion will produce rising prices, thereby implying a meaningful price index. Rothbardians still believe that individual time-preference determines – I said **determines** – the objective market rate of interest. As Rothbard had us singing one evening, "Give me that old time-preference, that old time-preference, that old time-preference; it's good enough for me. It was good enough for Mises; it was good enough for Hayek; it was good enough for Fetter; and it's good enough for me!"

Austrian economics now has several banners, depending on which of Mises' themes the economist emphasizes. The Lachmannites emphasize the role of indeterminate intuition to the

exclusion of other economic concepts. As Pete Seeger might put it, they are neck deep in the big noumenal, and the darn fools say to push on. As far as I can see, Lachmann's economics is Alzheimer's economics. Ask a Lachmannite, "How are you doing?" and the answer will be: "Fine. Now, ask me again. Things may have changed."

The Kirznerians are content to wade into noumenal waters up to their knees, but they no longer bother to swim. They may paddle around a bit. They sing the praises of the entrepreneurial "ah, ha" and the lone imputer. They still speak of the market – a suspiciously aggregative concept – and the uncertainty-bearing process that never quite clears it. They seem uninterested in building up Austrian School intellectual capital, a collective concept and therefore meaningless. For them, there is no overarching Austrian system, for a system runs into such statistical icebergs as national capital, per capita wealth, index numbers, and business cycles. The early Kirzner, the Kirzner of *Market Theory and the Price System* (1963), has not been seen for over thirty years. Ask a Kirznerian, "How are you doing?" and you get this answer: "If the 'you' is singular, I'm doing fine. If it's plural, the concept is methodologically meaningless."

The Rothbardians extend the Misesian tradition, but without the Kantianism, the utilitarianism, and the defense of limited civil government. They also have a willingness, following Rothbard, to move from the economic concept of collusion, by way of a market-based theory of state-granted monopoly, to the politically incorrect concept of conspiracy. Incorrect ideas have consequences, Mises said. So do monopoly returns, Rothbard added, so we ought to follow the money when we write about collusion. Ask a Rothbardian, "How are you doing?" and the answer will be: "Not as well as I'd be doing if the monstrous state were overthrown by the voluntary actions of cooperating individuals who would then disperse and go home."

Then where are the heirs of Mises, defenders of the true faith, once delivered? There are three of them remaining: Bettina Greaves, Hans Sennholz, and Mark Skousen. They aren't getting any younger, although Skousen keeps trying.

Van Til's Alternative

I did not join any of the camps at South Royalton because of my commitment to Cornelius Van Til's epistemology rather than Kant's or Aristotle's. Van Til invoked the biblical doctrine of creation as his way around the dilemmas of Kant's dualism. God, as the Creator, is omniscient. He created the universe, placed it under law, and then created man as His image. Man can understand the creation because he is made in God's image. He thinks God's thoughts after Him, in a creaturely mode. Man cannot understand the creation exhaustively; omniscience is an incommunicable attribute of God.

So, instead of using Kant's impersonal noumenal to gain for man his hoped-for personal autonomy from determinism, Van Til appealed to the covenant: covenant-keeping rather than covenant-breaking. The creation is personal because God made it and sustains it. The noumenal does not exist: a realm beyond covenantal cause and effect, beyond God's decree. Neither does the phenomenal exist: a realm of impersonal cause and effect. Ours is a world of cosmic personalism.

Jesus Christ made interpersonal comparisons of subjective utility:

And Jesus sat over against the treasury, and beheld how the people cast money into the treasury: and many that were rich cast in much. And there came a certain poor widow, and she threw in two mites, which make a farthing. And he called unto him his disciples, and saith unto them, Verily I say unto you, That this poor widow hath cast more in, than all they which have cast into the treasury: For all they did cast in of their abundance; but she of her want did cast in all that she had, even all her living (Mark 12:41-44).

In principle, men can and must make such judgments. Without this ability, there can be no social policy. This was Harrod's answer to Robbins in the *Economic Journal* in 1938, and Robbins capitulated in 1939. Sooner or later, the economist says, "Yes, this is (or is not) valid social policy," and in doing so, he necessarily acknowledges the legitimacy of corporate social judgments.

Mises, like Friedman, relied on intuition to defend his economic theory. I discussed this in my essay, "Economics: From Reason to Intuition," in the book I edited, *Foundations of Christian Scholarship: Essays in the Van Til Perspective* (Ross House, 1976). It had become clear to me by then that Kant's dualism lies at the heart of modern epistemology, and economics is no exception. Rothbard's attempt to return to Aristotle was a valiant effort to escape from Kant's noumenal realm, but Aristotle's form/matter dualism awaits everyone seeking relief in Greece from Kant's nature/freedom dualism. That, I had learned from Van Til and Herman Dooyeweerd.

It was the South Royalton conference that persuaded me that subjectivism had reached dead ends in economics. I saw in Lachmann the dead end of Kirzner's noumenal entrepreneur. The autonomy of the Kirzner's "ah, ha" leads to the destruction of temporal continuity. The individual is cut off from his own past valuations – no common scale of values through time (Shackle) – and also from the future, which appears to him as kaleidic, moment by moment. This way lies madness.

I began to develop an alternative to methodological holism and methodological individualism, which are modern economics' version of realism and nominalism. I opted for **methodological covenantalism**. Van Til made it clear that the doctrine of the Trinity – a God who is plural and unified, God in three persons – is the solution to the antinomy between individualism and holism, in all of its forms. This means the equal ultimacy of the one and the many.

There is a subjective aspect of economics, for each man is responsible before God for what he thinks and does. He makes decisions as an individual. But he cannot do this autonomously. He is always a creature. He must consider the corporate implications of what he says and does. He can and must think in terms of what his actions are within a covenantal setting. God has created human institutions, and these are collectively responsible to God and other men through their representatives. God holds nations corporately responsible (Deut. 28); therefore, men must make interpersonal comparisons of subjective utility. They must think of what is good for the whole.

Scientific economics cannot account for such corporate judgments on the basis of its own first principles, yet economists continually make them. Economic policy demands such interpersonal comparisons. This is a fundamental antinomy of modern economics. This antinomy arises because modern economics is officially agnostic but is in fact atheistic.

The Breakdown of Modern Economics

Epistemology is not a popular topic among economists, who regard themselves as practical. James Buchanan, a Nobel Prize winner who is interested in epistemology – a rarity – wrote two decades before he won the prize that economists prefer not to define their discipline. They just practice it. "What is economics? That which economists do." "Then who is an economist?

Someone who does economics."

The epistemological afflictions of modern humanism are not visible in economics because the books and journal articles are covered by equations, jargon, and irrelevance. George Stigler, another Nobel Prize winner, once asked why it is that not a single article worth reading appeared in a professional journal in the previous year. He asked this year after year. Sorokin described the final stages of our sensate, materialist civilization in his book, *The Crisis of Our Age* (1941). One mark of this decline is the proliferation of arcane, technical, and irrelevant academic publications. This was just getting started in 1941.

There is no introductory economics textbook to rival the dominance for two decades of Samuelson's textbook. Mark Skousen's book, *Economics on Trial*, revealed how weak the top ten textbooks are in the area of entrepreneurship. His book had no effect, any more than Sorokin's book did. The crisis on the profession is endemic – bureaucratic, formal, and self-consciously removed from reality in its journals. Today, there is no school of thought that dominates the classroom. The retirement of those Keynesian Ph.D.'s produced by the carload prior to 1970 will mean even less coherence.

Because of its focus on entrepreneurship, the Austrian school insulated itself from the worst aspects of this formalism. Austrians write in English. But ever since the South Royalton conference, Lachmann's noumenal irrationalism has divided the movement. It was implicit in Mises because it was explicit in Kant, but it never received much attention before 1974.

Conclusion

Biblical economics will not receive a hearing until the alternatives are perceived as either dead ends or sink holes. Until this happens, any investment in biblical economics will remain a long-term project with little evidence of success. But the longer we have to lay the foundation, the faster our response time when demand at last registers in the market.

1. Some cynics saw a connection: the Nobel Prize is not given posthumously.

2. It was said almost immediately that the Prize had gone to two men, one of whom had not expected to win it, and the other who had not expected to share it.

3. The supply peaked in 1973 at about 34,000. It dropped slowly to about 32,000 a year in 1978, where it remained steady until 1988. It rose to 40,000 a year between 1988 and 1995. Chart, National Science Foundation: www.nsf.gov/sbe/srs/nsf97335/charts/ch998335.gif

4. Hayek told me and Mark Skousen in an interview in 1985 that the first time he had learned that he was a Kantian was when he read John Gray's study of his thought. He told us that he thought Gray was correct.

5. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*.

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