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Special Issue: Economic History and Austrian Economics

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Introduction to the Special Issue

A special issue on the relationship between economic history and Austrian economics may at first sight seem strange. To the extent that most economists or historians know anything about the Austrian approach, they often associate it with a thoroughgoing insistence on *a priori* reasoning and a rejection of quantitative empirical work. This perception is most common amongst online consumers of Austrian ideas, stemming largely from Murray Rothbard's (1957) "In Defense of Extreme *Apriorism*" when he interprets Ludwig von Mises's methodology of the social sciences.

Rothbard's essay was written in response to Fritz Machlup's (1955) "The Problem of Verification in Economics" and T.W. Hutchison's (1956) reply. Machlup specifically defends Mises from the accusation of extreme apriorism (1955, 7, footnote 18). Machlup's goal is to distinguish between certain fundamental assumptions that cannot be *independently* tested because they always rely on other subsidiary empirical assumptions.

In our view, Machlup has a more plausible reading of Mises. Gabriel Zanotti and Nicolás Cachanosky (2015) argue that Machlup's interpretation puts Mises's views on firm ground in contemporary philosophy of science. Furthermore, Mises frequently sees the production of historical work as one of the primary benefits of studying economic theory, without which the "data of history be nothing but a clumsy accumulation of disconnected occurrences" (1949, 41). Mises also frequently suggested research topics for graduate students that were histories: of American cartel legislation, of the abolition of free banking, of shoes and stockings, of deflationary episodes, and more (Bettina Bien-Greaves 2006).

More recently, Austrian economists have identified the school's unique contributions in terms of substantive theories about how the social world operates (Adam Martin 2015). Chief among these ideas is that market competition is a dynamic process driven by entrepreneurial discoveries and errors, rather than a state of the world describing the ability to set prices. From this broad picture emerge more specific hypotheses, such as the possibility that unintended consequences from one intervention can lead to further government interventions in the future, or that inflation might distort the price signals on which entrepreneurs rely.

It is true that in the 1970s and 1980s, Austrian economists who were just discovering the work of Menger, Mises, and Hayek wrote a great deal about methodology and the history of economic thought. They sought to understand how the dominant neoclassical synthesis led to such a different approach to economic science from the approach that they found compelling. Contemporary Austrians, on the other hand, have long embraced applied, empirical, and historical work as vital to advancing our understanding of human society (Daniel J. Smith 2023; Claudia R. Williamson 2020).

The papers in this Special Issue were written for a symposium on Economic History and Austrian Theory which we organized with the support of the "Austrian Economics in the 21st Century" research project funded by the John Templeton Foundation, whose generosity we gratefully acknowledge on behalf of all the participants. The symposium was inspired by a counterfactual thought experiment: what if the ideas of Menger, Mises, and Hayek had been rediscovered in the present day instead of the 1970s? The mainstream economics those Austrians were responding to was much more focused on theory than recent work, which is overwhelmingly empirical.

Economic history has ridden this wave, flourishing in the world of expanded computing power and remarkable advances in digitizing historical data. Economic history papers now regularly appear in general interest economics journals. In short, economic history is on the rise. We assembled a group of economic historians—some extremely familiar with Austrian ideas, others much less so—to tackle a question both from a high level of abstraction and from a focus on particular historical episodes.[1] What relevance, if any, do distinctively Austrian ideas have for contemporary scholarship in economic history?

The first three essays of this Special Issue tackle the methodological issues at stake in answering this question. Mark Koyama traces out the intellectual histories of both Austrian economics and economic history. He argues that the relationship between theory and empirics is probably the largest stumbling block for cross fertilization between the two fields. He further notes that some traditional Austrian criticisms of econometrics now appear outdated as economists have increasingly been attentive to problems of causal inference.

Nicola Tynan surveys recent work in economic history to identify points of tangency with Austrian economics. She sees these connections in topics as diverse as path dependence, economic growth, the origins of money, the Glorious Revolution, and public health. Tynan argues that economic historians have become more open to considerations of institutional details that so fascinate Austrians as new technologies have made questions regarding such details amenable to quantitative analysis. She further notes the similarities between Austrian economics and New Institutional Economics, the latter having been very influential in economic history.

Samuel DeCanio compares Hayek's thoughts on spontaneous order to his thoughts on the role of academic history in shaping individuals' ideas. Hayek argues that spontaneous orders—orderly patterns of interaction that are the results of human action but not of human design—have some advantages over designed orders. In particular, markets work as a selection mechanism for figuring out which entrepreneurs have better ideas of what to make and how to make it. But Hayek also argues that historians' misinterpretations of capitalism and the Industrial Revolution in particular have led people astray in the way they view markets. If the history profession itself is a spontaneous order, why does it not select for correct ideas?

The remaining essays engage with these methodological issues in different ways and all grapple with substantive aspects of Austrian theory such as entrepreneurship, the role of time, the dynamics of intervention, and Austrian business cycle theory. Vincent Geloso applies the dynamics of intervention to the development of rural Quebec. The basics of the theory are that the unintended consequences of a policy might lead policy makers to intervene further. Geloso argues that one channel that this can take is that intervention can affect future specialization choices, providing another illustration of the importance of path dependence. He discusses how the seigneurial tenure system created a set of price controls and entry barriers into milling. The first-order effect of these restrictions was that Quebec had fewer grain mills than other parts of North America. The second-order effect was that they led to monopolies in animal feed and less dairy farming. Consequently, when it became feasible to ship dairy products to more populous areas, Quebec was largely unable to capitalize on the increase in demand.

Robin Grier draws a parallel between the development of state capacity and Mises's theory of the development of money. Mises addresses a worry that a marginalist theory of money may be circular: the value of money to me is determined by its purchasing power, its purchasing power is determined by how much others value the money, whose valuations are determined by … you get it. Mises evades circularity by introducing time: money's purchasing power yesterday forms the basis of my valuation of it today. Similarly, Grier argues, the state's capacity to control violence depends on its ability to fund armed forces, which depends on its ability to raise taxes, which depends on its control of armed forces. The development of state

[1] All papers included in the symposium went through peer review by two other symposium participants and an external, anonymous reviewer. At this stage, a specific publication outlet had not been identified, and no guarantee of publication was offered to participants. Not all papers included in the symposium appear in this Special Issue. The eight included papers were further reviewed by one editor of this Special Issue and one of the joint editors of *Essays in Economic & Business History* before acceptance for publication.

capacity, then, should likewise be seen as a long-run historical development. She illustrates the importance of time to the development of state capacity by examining its gradual formation in Mexico.

Marc Law examines the relevance of Austrian economics for explaining the rise of the regulatory state in Progressive Era America. He surveys the current empirical literature on the topic, noting the contrast between a broadly Public Interest view of the explosion in regulation with a Special Interest view. Both views draw inspiration from the public choice literature, and differ in whether they emphasize regulatory capture or interest group competition. Law counts the reliance on public choice as a win for positive Austrian economics but notes that some studies find that regulation increased efficiency, which runs against the normative views typically associated with the Austrian school. He further articulates two potential contributions that Austrians might be able to make on this topic: developing an account of the dynamics of new interest groups in response to regulation and exploring entrepreneurship on the part of government bureaucrats.

Judge Glock applies a market process perspective to understand cooperation between US railway companies in the nineteenth century. The standard view is that cooperation between railroads is collusive, but Glock highlights several dimensions along which cooperation was productive, helping to lower prices and increase access to railway services. These include setting rules of interchange between companies, the creation of car service associations to deal with cars that crossed from one company's track to another's, and the establishment of belt lines and union stations. Glock argues that these organizational innovations align with the idea that efficient market structures are not known ahead of time but emerge through a process of entrepreneurial discovery.

Jason Taylor and Wenjun Xue update the methods and data employed in Richard Vedder and Lowell Galloway's *Out of Work: Unemployment and Government in 20th Century America*. Vedder and Galloway hypothesize that a substantial amount of variation in unemployment can be explained by variation in real wages divided by labor productivity—the "adjusted real wage rate". The work of Rothbard encouraged them to pursue this project because it aligns with an Austrian interpretation of the Great Depression: government attempts to maintain nominal wages led to massive unemployment. Taylor and Xue use industry-level panel data for the interwar period and a battery of econometric techniques to find strong support for Vedder and Galloway's hypothesis.

The contributions within this special issue mark an important point in contemporary research on economic history. Not only have enhanced developments in data availability and statistical techniques afforded an increased precision and accuracy to investigate a broader and richer swath of topics; but also, as this invited engagement with the Austrian tradition demonstrates, economic history today has the potential to explore, challenge and or reaffirm some of the most foundational assumptions and insights of economic theory itself. Theory and empirics need not be fitted into a scarcity mindset with one substituting away from the other. Contemporary economic history offers the potential to enhance both our empirical and theoretical understanding of the social world better into the future.

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