

**“Un-Austrian” Austrians? Haberler, Machlup, and Morgenstern and the Post-Emigration Elaboration of Austrian Economics<sup>1</sup> (Preliminary Draft—Please Do Not Cite)**

**ABSTRACT:** Historians of economic thought have begun to reintegrate “un-Austrian” Austrians back into discussions of Austrian Economics, yet many scholars have argued that the Austrian School dissolved “in the wilderness” of emigration. This paper argues that a renewed focus on the networks established by the Austrians themselves, before and after emigration, reveals a distinctly different picture of Austrian Economics. Focusing on their shared interest in international economics, we see the émigré Austrians continuing “traditional” Austrian ideas while also reconstituting and elaborating new Austrian affiliations. Ultimately, we find ourselves in agreement with Herbert Furth that Austrian Economics is far broader than Hayek, Mises, and their acolytes would have it, and that it is vital to understand and preserve this more diverse tradition.

You know that I consider Hayek the ‘Dean’ of the Austrian School; nevertheless, he still is only one of many members, and has no authority to excommunicate those who are not fully in agreement with his views. Moreover, the sentences you quote don’t contradict my opinion about Auspitz, Lieben, and Schumpeter: sure, they can be included in the school only ‘with qualifications’ or ‘not wholly’ – but that is very different from calling them ‘un-Austrian’! Incidentally – would you deny that you, too – like every original thinker – has absorbed ‘many other influences’ besides Menger, Boehm, and Wieser?  
—J. Herbert Furth to Fritz Machlup, 21 July 1979<sup>2</sup>

While historians of economic thought have begun to reintegrate “un-Austrian” Austrians back into discussions of Austrian Economics,<sup>3</sup> scholars have typically argued that the original Austrian School dissolved “in the wilderness” of emigration.<sup>4</sup> For some scholars, the “decline” of the school owed to the remarkable ability of the Austrian

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<sup>2</sup> J. Herbert Furth to Fritz Machlup, 21 July 1979, Box 39, Fritz Machlup Papers (FMP), Hoover Institution Archives (HIA).

<sup>3</sup> Gabriel J. Zanotti and Nicolas Cachanosky, “Implications of Machlup’s Interpretation of Mises’s Epistemology,” *Journal of the History of Economic Thought* 37:1 (March 2015): 111-38.

<sup>4</sup> Hansjörg Klausinger, “‘In the Wilderness’: Emigration and the Decline of the Austrian School,” *History of Political Economy* 38:4 (2006): 617-664.

émigrés to assimilate into the American academy and adapt to their new surroundings.<sup>5</sup> Austrian economists entered the mainstream and therefore ceased to be “Austrian”. The retrospective self-descriptions of the native Austrians, in which they claimed not to represent a national tradition, coupled with the distance maintained between them and the American Austrians around Mises, reinforced the conclusions that the old Austrian school was gone and that Misesians had created a new Austrian Economics. This paper argues that a renewed focus on the networks established by the Austrians themselves reveals a distinctly different picture of Austrian Economics—in Vienna but more crucially in the United States. Focusing on their shared interest in international economics—namely international trade, business cycle, monetary, and financial theory—we see the émigré Austrians extending and advancing “traditional” Austrian ideas after emigration while also reconstituting and elaborating their Austrian affiliations. The Misesians therefore represent but a branch of a renovated Austrian network in the United States.

With the exception of Friedrich Hayek, the “fourth generation” of Austrian Economists, which included luminaries such as Gottfried Haberler, Fritz Machlup, and Oskar Morgenstern, has received little attention from students of Austrian Economics. The cohort’s post-emigration work in particular has not appeared in collections devoted to Austrian Economics, nor has it attracted scholarly research. A cursory survey of the literature confirms this impression. For example, the three-volume *Austrian Economics*, edited by Stephen Littlechild, contains but one article from this cohort (excluding

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<sup>5</sup> E. Wilder Spaulding, *The Quiet Invaders* (Vienna, 1968); Earlene Craver, “The Emigration of the Austrian Economists,” *HOPE* 18:1 (1986): 1-32; Claus-Dieter Krohn, “Die Emigration der Österreichischen Schule der Nationalökonomie in die USA,” in Friedrich Stadler, ed., *Vertriebene Vernunft II* (Vienna, 1988), 402-415.

Hayek)—an excerpt of a 1932 Haberler essay.<sup>6</sup> One can search the pages of *The Quarterly Journal of Austrian Economics* and *The Review of Austrian Economics* in vain for articles drawing from this group.<sup>7</sup> This neglect is somewhat surprising given the readiness of American Austrians to solicit interviews, lectures, and memoirs by the Viennese about past and present Austrian Economics and the references made to the significance of the fourth generation in promotional materials for various Austrian Economics projects.<sup>8</sup>

The argument for the omission of these “un-Austrian” Austrians usually follows from an ahistorical rendering of the Austrian idea. Earlier Austrians were retrospectively defined (and excluded) through definitions based in contemporary understandings of “Austrianness”. In other words, if an individual’s work did not resemble the current image of an (American) Austrian project, it was not Austrian. Karen Vaughn offers a clear version of this interpretation: “To be sure, other Austrian émigrés to the United States were actively involved in academic pursuits. ...However, despite the fact that they were working on issues that could be considered ‘Austrian’, as the term later came to be used, none of these economists thought of himself as an ‘Austrian’ economist except by nationality.”<sup>9</sup> While acknowledging the continued ‘Austrianness’ of their contributions in one breath, Vaughn removes the fourth generation from consideration in the next since

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<sup>6</sup> Stephen Littlechild, ed., *Austrian Economics*, 3 vols. (Brookfield, VT: Elgar, 1990). There is also an obituary of Wieser by Morgenstern and a Haberler memoir of the Mises *Privatseminar*.

<sup>7</sup> There are three articles total, all in the *QJAE*: Hansjörg Klausinger, “From Mises to Morgenstern: Austrian Economics During the Ständestaat,” *QJAE* 9:3 (2006): 25-43; Carol Connell, “Fritz Machlup’s Methodology and *The Theory of the Growth of the Firm*,” *QJAE* 10:4 (2007): 300-12; Connell, “Fritz Machlup and the Bellagio Group,” *QJAE* 16:3 (2013): 255-298.

<sup>8</sup> See “An Interview with Professor Fritz Machlup,” *Austrian Economics Newsletter* 3:1 (Summer 1980): 1, 9-12; “Interview with Professor Gottfried Haberler at AEI,” 3 January 1979, Gottfried Haberler Papers (GHP), HIA; “Between Mises and Keynes: An Interview with Gottfried von Haberler (1900-1995),” *Austrian Economics Newsletter*, Spring 2000; “Austrian Economics,” pamphlet, George Mason University, Box 26, Friedrich Hayek Papers (FHP), HIA.

<sup>9</sup> Karen Vaughn, *Austrian Economics in America: The Migration of a Tradition* (New York: Cambridge UP, 1994), 92.

they do not fit what is “considered Austrian.” From the outset, the members of the fourth generation are defined as “other” and thus more easily dispensed with. A brief, unattributed comment about self-ascription and Austrian identity then confirms the verdict. This teleological approach forecloses any discussion of a potentially broad and diverse tradition, which, as this paper argues, clearly existed in the work of the Austrian fourth generation and which the Austrians themselves recognized as part of their distinctive economic tradition.

This paper will pick up its investigation of Austrian Economics where Vaughn and others have let it drop. First, we will look at what it meant to be “Austrian” at the time of the Austrian migration. Even before their emigration, the fourth generation had traveled broadly and was exposed to a far wider array of influences than their predecessors. Their work reflected this more transnational and ecumenical quality. As Machlup himself noted, he did not even consider himself part of a school until the mid-1930s when Luigi Einaudi, a close friend of the younger Austrians, referred to a distinctive movement coming out of Vienna.<sup>10</sup> Following the lead of Hansjörg Klausinger, we will look at the discussions of business cycles, depression, and international trade that preoccupied the Austrians and served as a basis for subsequent work.<sup>11</sup> We will then investigate the “Austrian issues” on which these thinkers worked. Ultimately, we find ourselves in agreement with the Austrian Herbert Furth in his letter to Machlup, excerpted in the epigraph: Austrian Economics is far broader than Hayek,

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<sup>10</sup> Axel Leijonhufvud, “Interview with Professor Machlup,” 16 March 1977, New York University, 27-29, FMP, HIA.

<sup>11</sup> See Hansjörg Klausinger, “In the Wilderness”; Klausinger, “The Austrian School of Economics and the Gold Standard Mentality in Austrian Economic Policy in the 1930s,” (working paper, Center for Austrian Studies, 2002); Klausinger, “From Mises to Morgenstern: Austrian Economics During the Ständestaat,” *QJAE* 9:3 (2006): 25-43.

Mises, and their acolytes would have it, and it is vital to protect that more diverse tradition from the radical simplifiers in the libertarian tradition.

Drawing on the ideas of actor-network theory and the sociology of scientific knowledge, we will elaborate the new Austrian collective expressed through the interpersonal connections, publications, correspondence, and institutions in which they participated (and conflicted).<sup>12</sup> By moving away from a Popperian-Lakatosian model of a scientific research program that has long been popular in Austrian Economics,<sup>13</sup> we can see through which processes Austrian made their science rather than presupposing certain crucial premises that pertained in Austrian Economics.<sup>14</sup> Lastly, we will look at the ways in which Haberler, Machlup, and Morgenstern (along with Hayek) endeavored to rebuild Austrian economics after World War II—in the United States, Austria, and transnationally. Despite later claims to the contrary, the Austrian émigrés did not solely see themselves as Austrian by nationality, they also saw themselves as part of a rich and ongoing economic tradition.

To preempt potential criticisms, I will offer a few caveats. This paper does not deny the significance of the Misesian strand of Austrian Economics nor does it claim (as Furth did) that libertarian Austrians represent a false deviation from the “true” school. It recognizes that the predominant interpretation of Austrian Economics and its history follows a relatively straight, albeit occasionally interrupted, line from Menger through Böhm, to Mises and Hayek, to Lachmann, Rothbard, and Kirzner, and onto the present.

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<sup>12</sup> See Bruno Latour, *Reassembling the Social* (Oxford: Oxford UP, 2005), Part II. On the importance of intellectual conflict, see Randall Collins, *The Sociology of Philosophies* (Cambridge: Belknap Press, 1998), 1-15.

<sup>13</sup> Mario Rizzo, “Mises and Lakatos: A Reformulation of Austrian Methodology,” in *Method, Process, and Austrian Economics*, ed. Israel Kirzner (Lexington, 1982): 53-73. See also Peter Klein, “The Mundane Economics of the Austrian School,” *QJAE* 11:3/4 (2008): 165-187; Gerald P. O’Driscoll, Jr. and Mario Rizzo, eds., *Austrian Economics Re-examined* (New York: Routledge, 2015): 19-46.

<sup>14</sup> See Bruno Latour, *Science in Action* (Cambridge: Harvard UP, 1987).

Those that practice Austrian Economics today draw upon this rich tradition and have sustained and elaborated a distinctive school. This paper merely challenges the teleological assumptions of this approach and argues that Austrian Economics will be improved by articulating additional areas of concern within the tradition and by exploring the processes of group formation and identification that shaped it into its present-day incarnation.

### *Post-WWI Austrian Economics: Discontinuity, Instability and Internationalization*

The years immediately following the Great War represented a period of transition in Austrian economics. Younger Austrians, who eventually comprised the fourth generation, were exposed to a broad range of approaches while facing diminished academic prospects. This led them to seek opportunities abroad to further their careers. Consequently, their work bore an international stamp that the first generations did not possess. They also established significant connections in the transnational academy. The successful emigration of Austrian economists owes to a central irony: the precariousness of their foothold in the academy of First Republic Austria forced Austrian economists to broaden their horizons and develop a more robust body of thought. Viennese economists became adept at establishing connections to scholars and institutions abroad, particularly in the United States.

For students interested in the tradition of Carl Menger and his school, the search for alternate pathways was especially necessary given the ongoing changing of the guard in the school. Menger, though still living in Vienna, had long since retired. Eugen von Böhm-Bawerk and Eugen Philippovich had passed away during the war, leaving

Friedrich von Wieser as the lone representative with a tenured academic appointment. Even before his retirement in 1922, however, his interests had shifted primarily to sociology. Machlup described his lectures as dry and uninformative: “I don’t know how much I learned from Wieser; I probably could have gotten it better by reading his book than by listening to his lectures. He was a very dry lecturer.”<sup>15</sup> Joseph Schumpeter, a professor in Graz before the war and then Finance Minister after, permanently left the Austrian academy, becoming a bank director and then a professor in Bonn. After Wieser’s departure, the economics faculty consisted of the Marxist economic historian Carl Grünberg, the universalist Othmar Spann, and Wieser’s student, Hans Mayer.<sup>16</sup> As Hansjörg Klausinger has shown, Mayer received his appointment ahead of Schumpeter, Alfred Amonn, and Mises because of support from Wieser and Spann.<sup>17</sup> While Mises taught courses as an untenured *Privatdozent* that the fourth generation attended, it was not until the mid-1920s that they were permitted to join his *Privatseminar*, for students had to possess a Ph.D. to participate.<sup>18</sup> With all these forceful personalities, the fourth generation received an eclectic education. Machlup’s university notebooks reveal the lack of methodological focus in economics instruction. In courses with Spann and Wieser, Machlup recorded the contents of books by Spann, Schumpeter, Philippovich, David Hume, Immanuel Kant, Knut Wicksell, Irving Fisher, and Arthur Spiethoff.<sup>19</sup> Likewise, Oskar Morgenstern, Paul Rosenstein-Rodan, and Erich Voegelin struggled to

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<sup>15</sup> Leijonhufvud, “Interview,” 2.

<sup>16</sup> Ferdinand Degenfeld-Schonburg replaced Grünberg when the latter left for Frankfurt. For more on Spann, see Janek Wasserman, *Black Vienna* (Ithaca: Cornell UP, 2014).

<sup>17</sup> Hansjörg Klausinger, “Hans Mayer, Last Knight of the Austrian School, Vienna Branch,” *HOPE* 47:2 (2015): 271-305. See also Robert Leonard, *Von Neumann, Morgenstern, and the Creation of Game Theory* (Cambridge: Cambridge UP, 2010), 77-92.

<sup>18</sup> Gottfried Haberler, “Mises’s Private Seminar,” *Wirtschaftspolitische Blätter* 28:4 (1981): 122.

<sup>19</sup> Fritz Machlup Notebooks, undated, Box 76, FMP, HIA. Translations mine unless otherwise noted.

accommodate their advisers Spann and Mayer despite the growing enmity between the two senior scholars.<sup>20</sup>

The earliest publications of the new generation of Viennese scholars took up the methodological debates and theoretical concerns of their advisers. One of Haberler's first articles dealt with monetary and bank theory, offering a defense of the Menger-Böhm-Mises interpretation of capital and credit against the ideas of Spann and Schumpeter.<sup>21</sup> In another, he challenged his friend Richard Strigl about the possibility of an empirical rather than theoretical economic science. He argued that Strigl's book, *Die ökonomischen Kategorien*, did not offer an adequate epistemological foundation for economic observation. Calling Strigl a "neo-Kantian of a Cassirer type," Haberler pushed for a more rigorous methodology.<sup>22</sup> Oskar Morgenstern applauded Haberler for this critique of economic science. Machlup's dissertation and first book, *Die Goldkernwährung*, offered a historical and theoretical investigation in the gold exchange standard of the nineteenth century, centering primarily on the British Empire. This work extended Mises's investigation into gold policies in the sixth chapter of the third part of *The Theory of Money and Credit* by demonstrating the non-neutrality of money and the importance of exchange in determining the value of money.<sup>23</sup>

Despite the vibrancy of the Viennese intellectual environment and the intensity and high level of intellectual debate within the school, the situation for the Austrian economists was unpropitious in the 1920s. There were simply no jobs in the academy and

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<sup>20</sup> Oskar Morgenstern Diaries, February-September 1923, Box 12, Oskar Morgenstern Papers (OMP), Rubenstein Library, Duke University. See also Erich Voegelin, "Die Zeit in der Wirtschaft," *Archiv für Sozialwissenschaft und Sozialpolitik* 53 (1925): 186-211.

<sup>21</sup> Gottfried Haberler, "Kritische Bemerkungen zu Schumpeters Geldtheorie," *Zeitschrift für Volkswirtschaft und Sozialpolitik* 4 (1924).

<sup>22</sup> Gottfried Haberler, "Die Nationalökonomie als exakte Wissenschaft," *ZfVuS* 3 (1923): 771-81.

<sup>23</sup> Fritz Machlup, *Die Goldkernwährung* (Vienna, 1925).



very few in finance or economics. Hayek recognized the situation more quickly than most, heading to the United States in 1922-23. Others followed suit thereafter. The inception of Rockefeller Foundation (RF) grants represented a godsend for these scholars. After the 1924 establishment of the Laura Spelman Rockefeller Memorial Fund fellowships for European social scientists to research in the United States, Viennese economists formed a strong working relationship with the RF and historian Alfred Pribram, the Foundation's selector in Austria.<sup>24</sup> Furth, Haberler, Machlup, Morgenstern, Rosenstein-Rodan, Gerhard Tintner, and Voegelin all received fellowships in the next decade.<sup>25</sup>

The RF interaction helps explain the increasing internationalization and heterodoxy of the younger Austrian School that is often associated with the “dissolution” phase of the 1930s. Fellowships, which lasted one or two years, introduced the Austrians to new research trends in the Europe and the United States, particularly the business cycle research conducted at the Cambridge (UK) Economic Service, the Harvard Economic Service, and the National Bureau of Economic Research. While Schumpeter and Mises—in *Theorie der wirtschaftlichen Entwicklung* and *Theorie des Geldes und der Umlaufsmittel*, respectively—had deduced the mechanisms of the trade cycle, empirical research loomed larger for the younger generation as a result of these transatlantic connections. Haberler, Hayek, Machlup, and Morgenstern all employed statistics in their work from the 1920s, even as they maintained a healthy skepticism toward these data. These synthetic tendencies and ambivalent reactions appear clearly in the early works of

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<sup>24</sup> Christian Fleck, *Transatlantic History of the Social Sciences* (New York 2011), 58. See also Earlene Craver, “Patronage and the Directions of Research in Economics,” *Minerva* 24 (1986): 205-22.

<sup>25</sup> Fellowship recorder cards, Rockefeller Archive Center, RG 10.2, FA 426, Drawer 1. Hayek had also spent more than a year in the United States in the years before the Spelman fellowship.

this generation, e.g. Hayek's *Geldtheorie und Konjunkturtheorie*; Morgenstern's *Wirtschaftsprognose*, and Haberler's *Sinn der Indexzahlen*.<sup>26</sup> These confrontations between deductive and inductive approaches, combined with a growing mistrust of statistical data, pressed the younger thinkers beyond the theoretical deductions of the previous generation. Meanwhile extended absences from Vienna accentuated the intellectual discontinuity between earlier generations of the Austrian School and the fourth. This is not to say that the fourth generation broke with their predecessors—they did much to continue Austrian work on capital, interest, production, and the business cycle. Nevertheless, a shift in the meaning of Austrian Economics was already underway in the mid-1920s, and the transatlantic exchange had a lot to do with it.

The work conducted by the Austrians, often in conjunction with the Rockefeller-sponsored Institut für Konjunkturforschung, reinforced these new tendencies. The institute was founded in 1927 by Mises and directed by Hayek until 1930, when he was joined by Oskar Morgenstern. As Hayek described in a grant proposal to the RF: “The first aim of the Institute has been to prepare and issue a regular economic service ....The Institute has however planned, in accordance with its original aims, to undertake several special investigations into problems connected with business cycles of a more general character.”<sup>27</sup> Hayek tried to garner support for the empirical work of the economic service and the theoretical work “of a more general character.” In endorsing the project Alfred Pribram emphasized the empirical side, drawing a connection between Mises's

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<sup>26</sup> On *Wirtschaftsprognose*, see Leonard, Von Neumann, 93-109. On Hayek's Viennese work, see Bruce Caldwell, *Hayek's Challenge* (Chicago: University of Chicago Press, 2004), 133-64 and Hansjörg Klausinger, “Hayek's Geldtheoretische Untersuchungen,” *European Journal of the History of Economic Thought* 18: 4 (2011): 579-600.

<sup>27</sup> Quoted in John Van Sickle to Edmund Day, 13 October 1930, RG 1.1, Series 705, Box 4, Folder 36, Rockefeller Archive Center (RAC).

research trip to the United States and the formation of the institute, while Charles Bullock, head of the Harvard Economic Service, recommended the institute. The RF responded positively, providing a five-year grant totaling \$20,000 beginning in 1931. This was \$1,000 per annum more than Hayek requested, with the extra funds earmarked for Morgenstern and Hayek since “these two men are among the ablest of the younger economists in the German speaking countries, and there is some danger that they will be drawn away from Vienna unless conditions can be made for [sic] attractive for them.”<sup>28</sup> The RF was right to fear a brain drain, for Hayek left Vienna for London in 1931 and gave up his directorship in 1932. Haberler replaced him as co-director. Likewise, Morgenstern had regular employment requests, declining positions at Berkeley and Kiel.<sup>29</sup> The RF renewed its support in 1936 for two years at \$6,000 per annum and again for three years in 1938, though it would cancel payment after the Anschluss. For the RF, Austrian Economics was already an impressive tradition, which it associated with the institute and its young directors.

Despite the emphasis placed on empirical work by the RF, the institute planned to unify theoretical work with statistical and empirical analysis, with theory primary. In this way, the project remained Austrian methodologically. The directors walked a fine line in their publications consequently and tried to satisfy their benefactors. As Hayek noted, the purpose of the institute was the “statistical representation of trade cycle-related processes.” While he acknowledged the shortcomings of statistical models of economic life and noted that, “there is no ‘normal condition’ in business,” he remained true to the models developed by Warren Persons and Wesley Mitchell and deployed by the Harvard

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<sup>28</sup> Ibid.

<sup>29</sup> Oskar Morgenstern to Tracy Kittredge, 2 November 1932, RG 1.1, Series 705, Box 4, Folder 36, RAC.

Economic Service.<sup>30</sup> Most of Hayek's work for the Institute consisted of gathering statistical data and finetuning the models employed for analysis. In the yearly summaries, Hayek consistently reiterated that the "three-curve" model of trade cycles were effective, especially in charting the Central European economy.<sup>31</sup>

Oskar Morgenstern played the decisive role in the growth of the institute after 1930, as well as its transition toward mathematical economics and statistics.<sup>32</sup> He invited an impressive array of scholars to contribute to its activities, including Haberler, Abraham Wald, Tintner, and Karl Menger.<sup>33</sup> He attracted commissions from the League of Nations, the International Chamber of Commerce, and the Bank for International Settlements. The institute published works by Hayek, Machlup, Strigl, and Ragnar Nurske.<sup>34</sup> While the work of the institute under Morgenstern's leadership did reflect a shift toward mathematical economics and away from more general, deductive theorizing, for both the Austrians involved and the international community, the institute represented *the* signal contribution of the interwar Austrian school.

### *Depression and Interregnum: Austrians between Vienna and the United States*

The Great Depression and the rise of European fascism had profound effects on the Austrians, their home country, and their intellectual output. By 1938, most members of the fourth generation had left Central Europe. By 1940, they had established themselves in the Anglophone world. Nevertheless the 1930s represented a transitional

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<sup>30</sup> "Vorbemerkung," *Monatsberichte des österreichischen Institutes für Konjunkturforschung* 1 (1927), 1-2.

<sup>31</sup> *Ibid.*, 17.

<sup>32</sup> Klausinger, "Mises to Morgenstern," 25-43.

<sup>33</sup> Karl Sigmund, *Sie nannten sich Der Wiener Kreis: Exaktes Denken am Rand des Untergangs* (Wiesbaden, 2015), 248-53. Menger lectured for one week at the Institute but was not an active member.

<sup>34</sup> Oskar Morgenstern, "Report on the Activities of the Austrian Institute for Trade Cycle Research 1931-1935," 13 February 1935, RG 1.2, Series 705, Box 4, Folder 37, RAC.

period for the school. Not only were the Viennese preoccupied with their academic prospects and the political travails of the day, but they were also rethinking their ideas on business cycles and trade as a consequence of these historical events. Even as the Austrians diverged geographically and intellectually, they continued to conduct themselves as if they formed a collective. This common purpose reveals itself in their continued academic and institutional connections, the intensification of their correspondence and personal interactions, especially in support of one another's immigration and assimilation.

Owing to the impact of the Depression, fourth generation Austrians devoted increased attention to topical economic matters: trade and business cycles; deflation and reflation; monetary and capital theory; interventionism and laissez-faire. With the upsurge of protectionist and autarkic policies in the 1930s, they devoted greater scrutiny to the dynamics of international economics than ever before, which drew them into conversation and conflict with economists around the globe. Consequently, Austrians engaged with multiple audiences in several languages in these new research areas. Undoubtedly, their prescriptions diverged;<sup>35</sup> nevertheless, discussion and conflict with one another informed the key works produced during these years. And, more often than not, they continued to support one another's work and their shared traditions.

As early as 1930, third and fourth generation Austrians began to leave their home country in search of better employment prospects. As Christian Fleck observes in Joseph Schumpeter's case—Schumpeter taught at Bonn until 1932 when he matriculated to Harvard—Austrian economists were overwhelmingly émigrés but not refugees.<sup>36</sup> Many

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<sup>35</sup> See Klausinger, "In the Wilderness" and "From Mises to Morgenstern."

<sup>36</sup> Christian Fleck, *Etablierung in der Fremde* (Frankfurt, 2015), 376.

benefited from Rockefeller support in putting down new roots. Paul Rosenstein-Rodan left for London in 1930, receiving a subvention from the RF at University College. He also taught at the RF-sponsored London School of Economics for seventeen years. Friedrich Hayek departed Vienna in 1931 for LSE. Gottfried Haberler received a RF fellowship in the early 1930s before he headed to Geneva in 1934. Haberler took a position with the League of Nations Economic Section where he worked with Arthur Loveday, an adviser to the RF on business cycle research. Haberler followed Schumpeter to Harvard in 1936. Ludwig Mises also went to the Swiss city in 1934, joining William Rappard's *Institut Universitaire*.<sup>37</sup> Fritz Machlup spent a semester as a Rockefeller fellow at Harvard in 1935 before receiving an appointment at the University of Buffalo, which was subsidized by the RF. From Buffalo, Machlup negotiated (in vain) an offer for Ludwig Mises at UCLA.<sup>38</sup> Morgenstern found himself in the United States as a Carnegie Visiting Professor when the Anschluss occurred in March 1938. Deciding not to return to Europe, he wrote to American colleagues in search of a job. Put in touch with Abraham Flexner, he accepted a position at Princeton University. The RF paid half his salary for several years. While many Austrian economists—including close associates such as Furth, Alexander Gerschenkron, Martha Steffy Brown, Walter Fröhlich, Erich Schiff, and others—were still in Austria as late as 1938, those associated with the Austrian tradition were quite successful in their emigration efforts.<sup>39</sup>

With many Austrians on the move during the 1930s, the center of gravity of the school shifted from Hayek, Mises, and the Privatseminar to Morgenstern, Haberler, and

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<sup>37</sup> Tracy Kittredge, "Project Program in the General Field of Economic Stability and Security," RG 3, Series 910, Box 4, Folder 29, RAC.

<sup>38</sup> Machlup-Mises Correspondence, 15 February-26 April 1940, Box 53, FMP, HIA.

<sup>39</sup> "Tentative and Very Incomplete List of Displaced Austrian Scholars and Scientists," May 1938, RG 2, Series 705, Box 184, Folder 1320, RAC.

the Institut für Konjunkturforschung. Morgenstern and Haberler attracted international interest for their work on trade cycle theory. Both men endeavored to combine “pure theory” with policy recommendations. As Haberler remarked in his landmark work *The Theory of International Trade*, “I have also endeavored to avoid the too common practice of placing the theory of international trade and the discussion of trade policy in quite separate compartments without any connection between the two. Instead, I have tried to apply the theoretical analysis to every question arising from trade policy. Indeed, any discussion of trade policy which attempts more than a mere account of the legal and administrative devices in force, or than a statement of the criteria by which the various policies should be evaluated must inevitably consist in the application of economic theory.”<sup>40</sup> Instead of dispensing with the theoretical analysis associated with the Austrian approach, Haberler chose to build out from those foundations into policy advice. Part I of the work dealt with theoretical issues in international trade; Part II dealt with policy. Austrian concepts of marginal utility were fundamental to his entire study. As he noted, “The theory of international trade has to be regarded as a particular application of general economic theory. The theory of marginal utility, which interprets and explains the individual's economic activity as such, must therefore be applicable to those economic activities which, in their totality, constitute international trade. The same holds true also of the propositions of price theory follow from the laws of supply and demand.”<sup>41</sup> His elaborations of comparative and opportunity costs built on the works of Wieser and Böhm-Bawerk. His policy prescriptions, which advocated against protectionist tariffs and for freer trade, fit well within the Austrian tradition. His call for greater attention to

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<sup>40</sup> Gottfried Haberler, *Theory of International Trade* (1936), vii.

<sup>41</sup> Ibid., 9.

“simplifying assumptions” in economic theory, like perfect competition and no frictional costs, inspired future work by him, Machlup, and Furth.<sup>42</sup>

*International Trade* established Haberler’s reputation as a significant economist. It attracted the attention of Arthur Loveday and the Economic and Financial Section of the League of Nations. The League commissioned him to write its initial attempt to “coordinate the analytical work then being done on the problem of the recurrence of periods of depression.”<sup>43</sup> *Prosperity and Depression* was a synthetic work as much as an original piece of research, in which Haberler argued that most of the approaches to business cycles could be reconciled and that “the differences between the theories analyzed is not so radical as is sometimes believed.”<sup>44</sup> Haberler struck a pose of a neutral arbiter between various theoretical undertakings and placed distance between himself and any one approach, including the Austrian. Haberler offered a substantive criticism of the “over-investment” school of Mises, Hayek, Machlup, and Strigl for their inattention to the possibility and effects of a secondary deflation. He also took Mises to task for his notion of free banking, yet Haberler generally endorsed the explanatory power of Austrian theory over others.<sup>45</sup> Those associated with the Austrian school touted the book in turn. No less an authority than Joseph Schumpeter regarded Haberler’s work as a “masterly presentation of the modern material” that ranked as one of the most significant recent contributions to economic theory.<sup>46</sup>

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<sup>42</sup> Ibid., 211.

<sup>43</sup> Gottfried Haberler, *Prosperity and Depression*, 3<sup>rd</sup> ed. (Lake Success: United Nations, 1946), v.

<sup>44</sup> Ibid., 2.

<sup>45</sup> Ibid., 57-59.

<sup>46</sup> Quoted in Richard Ebeling, “Gottfried Haberler: A Centenary Appreciation,” accessed October 6, 2015, <http://fee.org/freeman/gottfried-haberler-a-centenary-appreciation/>.



*Prosperity and Depression* reflects the closer collaboration of Haberler, Machlup, and Morgenstern during the mid-1930s well.<sup>47</sup> In particular, Machlup and Haberler's correspondence intensified in the period after 1933. They exchanged spirited letters during the Knight-Austrian debates over capital theory and built off of one another's work over the next decades. For example, Machlup mentioned his debt to Haberler (along with Hayek and the Miseskreis) in the acknowledgments to the second edition of *The Stock Market, Credit and Capital Formation*, which appeared during this period.<sup>48</sup> Haberler returned the favor by referring favorably to Machlup's analysis of the role of short-term loans in the creation of inflation and cyclical upswings.<sup>49</sup> Both men recognized the need to clarify, qualify, and elaborate Austrian theory to make it more robust and more useful as a policy tool.

In the concluding chapter of the original version, Haberler referenced the work of Morgenstern (among others) in his renewed call for greater attention to the issues of international trade and their relevance for business cycles. Haberler observed that business cycle theory tends to consider (national) economies as closed systems with few significant exogenous influences. Contemporary economic events belied this theoretical assumption. He argued for more comparative research between national economies and greater focus on the ways in which the fluctuations within one national economy impact others. While Haberler only referenced a 1927 Morgenstern article on comparative

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<sup>47</sup> Mauro Boianovsky rightly argues that Felix Kaufmann also played a significant role in Haberler's exposition. See Boianovsky, "In Search of a Canonical History of Macroeconomics in the Interwar Period: Haberler's *Prosperity and Depression* Revisited," *Revista Brasileira de Economia* 54:3 (2000): 303-331. See also Mauro Boianovsky and Hans-Michael Trautwein, "Haberler, the League of Nations, and the Quest for Consensus in Business Cycle Theory in the 1930s," *HOPE* 38:1 (2006): 45-89.

<sup>48</sup> Fritz Machlup, *The Stock Market, Credit, and Capital Formation* (London: Hodge, 1940), viii.

<sup>49</sup> Haberler, *Prosperity and Depression*, 57-7.

business cycle research,<sup>50</sup> the full discussion of international aspects of the business cycle in the book reflected an awareness of Morgenstern's ongoing research at the Institut and elsewhere. Haberler had worked closely with Morgenstern at the Institut between 1930 and 1932 as a co-director before he headed to the United States as a Rockefeller Fellow and was well aware of the work conducted there. He received the institute's reports directly from Morgenstern during his travels and he corresponded regularly with him, too. The influence of his reading of Morgenstern's *Wirtschaftsprognose* and *Die Grenzen der Wirtschaft* shone through. Haberler criticized Morgenstern for the latter's overly pessimistic attitude toward economic science and prediction,<sup>51</sup> yet he recognized that economic theory had to evolve to address Morgenstern's objections.

Haberler and Morgenstern were intimate friends since the early 1920s, so their nearly simultaneous rise to prominence was especially gratifying. As Haberler made his name in international economics, Morgenstern established himself as one of the leading European researchers on trade cycles. With the help of Wald, Menger and others, he conducted sophisticated analyses of leading and lagging factors in the trade cycle and the reciprocal interactions of national economies. These findings appeared in the *Monatsberichte* (monthly reports) of the Institut. Owing to his popularity with the RF officers, he received monies from Rockefeller for larger comparative studies of economic conditions in the Habsburg successor states and programs in mathematical economics. He built the Viennese Institut from a humble operation into an internationally recognized one. The little center, which never had a staff of more than eleven,<sup>52</sup> became the envy of

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<sup>50</sup> Oskar Morgenstern, "International vergleichende Konjunkturforschung," *Zeitschrift für die gesamte Staatswissenschaft* 83:2 (1927): 261-90. Cited in Haberler, *Prosperity and Depression*, 407.

<sup>51</sup> Leonard, *Von Neumann*, 100-104.

<sup>52</sup> Leonard, *Von Neumann*, 180-1.

all the European institutes, even eliciting complaints from fellow directors about Morgenstern's ambition, political involvement and policy advice.<sup>53</sup> Despite this resentment, the RF maintained "a warm place in [its] heart for the little group down in Vienna which...is justified by their performance."<sup>54</sup> Haberler, in his new role as a trade theory expert, also attached great significance to this work, and he and Morgenstern worked in conjunction to develop the field further.

The clearest manifestations of this shared project were a series of three meetings conducted during the summer of 1936 and held in Geneva, Annecy, and Vienna, respectively. In these international gatherings of economists, the Austrians and their ideas were given clear precedence. Sponsored by the League of Nations and RF primarily, Haberler and Morgenstern were the central figures, and their theoretical considerations loomed large in the discussions among attendees. The origins of these conferences dated back over a year to the publication of *Prosperity and Depression*. In a 1935 report, Tracy Kittredge of the RF identified several areas for further economic research, including business cycle research, international trade, and banking and monetary policy. A collaborator and supporter of the Austrians, he expressed his argument language informed by Austrian economics:

There is substantial agreement that the most urgent task before the economists of the world today is to complete the analysis of contemporary economic phenomena with a view to making available for future practical programs definite knowledge of the results of previous governmental attempts to modify and control economic processes. The gap between economic theory and economic life is still very wide. Regardless of theoretical considerations, the populations of the world are insisting on governmental action. Governments are forced to undertake vast programs without adequate preparation or sufficient knowledge of the processes

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<sup>53</sup> Program Files, Business Cycle Conference, RG 3, Series 910. Box 4, Folder 29, RAC.

<sup>54</sup> John Van Sickle to Edmund Day, 1 May 1933, RG 1.2, Series 705, Box 4, Folder 36, RAC.

involved, or of the possible and unpredictable repercussions of their actions.<sup>55</sup>

The discussion of government planning and interventions, the emphasis on market processes and the role of knowledge in the economy reflected Kittredge's familiarity with Hayek and Mises's work. His attention to the insufficiency of economic knowledge demonstrates a familiarity with Morgenstern's pessimistic account of economic forecasting. His desire to elaborate economic theory and also connect it up to policy reflected the shift underway in the fourth generation of Austrians. Fittingly, Kittredge recommended Haberler, Mises, and Morgenstern for a potential conference, as well as other sympathetic economists, such as Robbins, Frisch, and Rist.<sup>56</sup>

This conference would fall between two others, likewise sponsored by the RF. The League of Nations Financial and Economic Section had planned a conference to discuss international trade and business cycles, with Haberler's *Prosperity and Depression* serving as a starting point.<sup>57</sup> The European business cycle institutes—about a dozen centers across the continent—had scheduled their biennial meeting in Vienna, with Morgenstern serving as host. After consulting with Morgenstern and Loveday, the RF scheduled their event between the others in the French town of Annecy. The list of invitees represented a who's who of international economists.<sup>58</sup> Most striking about the list is the preponderance of Austrians. There was a clear sense that the Austrian school had a longstanding interest in the themes to be considered, one that unified the different thinkers and generations. In addition to the participation of Haberler, Morgenstern, and

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<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> John Van Sickle to Arthur Loveday, 30 October 1935 RG 3, Series 910. Box 4, Folder 29, RAC.

<sup>58</sup> The names include: D.H. Robertson; Lionel Robbins; Loveday; Jan Tinbergen; Bresiani-Turroni; Oskar Anderson; L. Dupriez; Rist; Bertil Ohlin; Haberler; Morgenstern; Rappard; E. Lipinski; Alvin Hansen; Wesley Mitchell; John M. Clark; Jacob Viner; J.B. Condliffe; H.D. Henderson; N.F. Hall; L. Lorwin; P.W. Martin; Wilhelm Röpke; Schumpeter; Mises.

Mises, Schumpeter was invited but had to decline (in order to complete his own book on business cycles)<sup>59</sup> while Wilhelm Röpke provided commentary on the program and also attended.

The Austrians dominated the proceedings at these conferences and came away positively disposed to the direction of international economics. Unsurprisingly Haberler valued the Geneva conference most highly, since it placed him at the center of the discussion; however, he appreciated the Annecy one, too. He wrote to Machlup, who was in the United States at the time, of the fruitful developments out of these meetings.<sup>60</sup> For the Austrians as a collective, the Annecy conference was more significant, as it raised important questions about economics to which they had long devoted themselves. It also demonstrated their continued affiliation and common purpose. In the agenda for the conference, the organizers posed three overarching themes: 1) Is there such a thing as a “world economy”? If so, what forces act on it? 2) How can these forces be measured and analyzed? 3) What deficiencies exist in the research on economic change and how can they be remedied? The ensuing discussion focused on the relative importance of research at the national and international levels and on the reliability of currently available economic data.

The Austrians contributed to discussion of all three questions, and they spoke almost as one, especially on the latter two points. Morgenstern embraced the use of new statistical reporting, yet he stressed theory: “purely scientific research work” was “of

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<sup>59</sup> Joseph Schumpeter to John Van Sickle, 11 April 1936, RG 3, Series 910, Box 4, Folder 29, RAC.

<sup>60</sup> Gottfried Haberler to Fritz Machlup, August 1936, Fritz Machlup Papers, Box 41, HIA.

basic importance.”<sup>61</sup> Theory had to precede any meaningful empirical work; otherwise, the data would have little value. Given the diversity of statistical sources and the variability across national borders, Morgenstern advocated for better data collection at the national level, more international coordination, and a continued skepticism regarding empirical information. Haberler concurred, noting the gaps in historical economic data. Mises highlighted the unreliability of information coming from non-industrial nations and the danger of focusing too much on the rapid changes associated with industrial development rather than the “glacier-like” changes of agricultural society that lie beneath. Morgenstern supported Mises’s observations. Most significantly, Morgenstern and Mises made common cause in their criticism of Ohlin and Lipinski, who believed that the members of these institutes had a proper role to play in policy decisions. Morgenstern argued instead that the institutes had to investigate the *impacts* of government policy. Mises amplified these points, maintaining that it was too easy for governmental committees to “capture” economic experts by rigging the composition of those commissions. Therefore, experts should remain outside the policy realm, criticizing government interventions. Economic experts should coordinate their actions internationally to make sure that the best ideas and research achieved broad circulation. Haberler and Röpke reiterated these fundamental positions.<sup>62</sup>

The preceding discussion of the Austrian School during the 1930s reveals that the developments of this period shifted and reoriented the affiliations of the Austrians, yet the School did not decline or dissolve as a result. While figures like Mises and, to a lesser

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<sup>61</sup> “Record of the Discussions at the Conference called by the Rockefeller Foundation to consider the Desirability and Feasibility of Encouraging Coordination of Economic Research upon Problems of Economic Change,” RG 3, Series 910, Box 4, Folder 31, RAC.

<sup>62</sup> Ibid.

extent, Hayek moved from the center to the periphery of the Austrian network, neither were their disagreements on theory so substantial as to provoke a breach, nor were the Austrians sufficiently assimilated into new academic, institutional, or intellectual networks to suggest that new loyalties trumped old ones. The most significant reorientation within the Austrian field was perhaps a shift from cross-generational to intragenerational interaction. The Austrians of the fourth generation made fewer references as a whole to the work of Menger, Wieser, and Böhm, or to Schumpeter and Mises. However, they continued to reference one another, and they developed their ideas at conferences, in meetings, and visits intersubjectively. This tendency became more pronounced as the school established itself in the United States. Even as they assimilated in the United States and entered mainstream economic discussions, especially in international economics, they still maintained a clear sense of their Austrianness, both in their commitment to certain ideas and approaches and to the restoration of Austrian Economics in their homeland.

### *Austrians in America*

The Austrians of the fourth generation made a quick adjustment to their new American surroundings, introducing their ideas to the American academy. The Austrians directed their energies to engaging an Anglo-American audience, which effaced some of their earlier influences and obscured their Austrian intellectual debts. The argument that they therefore disappeared into the mainstream and the Austrian School consequently declined is persuasive from this vantage, yet there are significant reasons to temper that assessment. First, much of the Austrians' earliest American output developed out of prior

concerns and preexisting connections. Haberler and Morgenstern, for example, revised and republished German-language articles on international trade, providing an introduction to an American audience of Austrian and European work. Moreover, the school reconfigured in intriguing ways, as its members developed new affiliations with one another as they positioned themselves in the post-WWII world. To recover this neo-Austrianism, we need to examine the interpersonal, institutional, and intellectual connections that the Austrians fashioned after emigration.

Machlup's American work and activities best exemplify this combination of old and new commitments, of Austrian preservation and elaboration and American assimilation. He entered into the debate between Frank Knight and Friedrich Hayek over capital theory, clarifying and defending the Austrian theory. His early American research drew its inspiration from Haberler's international trade theory. As we have seen, Haberler focused on potential shortcomings in the application of the pure (often Austrian) theory of trade—namely, imperfect competition and frictional costs. Without a better understanding of the influence of these factors, Haberler maintained, trade theory and policy would be severely limited. Machlup used this admonition as a springboard. In his investigations of duopoly, oligopoly, pliopoly, and other market conditions, he elaborated and confirmed the findings of Austrian trade theory. Significantly, his work reaffirmed freer trade policies over protectionism and interventionism, identifying labor unions and wage controls as the major cause of market disruptions.<sup>63</sup> Nonetheless, the seriousness with which he took issues of competition within the market process opened a new fault

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<sup>63</sup> Among others, see Machlup, "Monopoly and Competition: A Classification of Market Positions," *American Economic Review* 27:3 (1937): 445-51; "Evaluation of the Practical Significance of the Theory of Monopolistic Competition," *American Economic Review* 29:2 (1939): 227-36; "Competition, Pliopoly and Profit," *Econometrica* 9:33/34 (1942); "The Division of Labor between Government and Private Enterprise," *AER* 33:1 (1943);



line between Machlup, the fourth generation, and Mises. In their correspondence, Mises chided Machlup for overemphasizing the significance of monopolistic phenomena in capitalist economies.<sup>64</sup>

Machlup published several articles that followed directly from Haberler's work in the 1930s and 1940s, reflecting a closer interaction between the two men. In "The Theory of Foreign Exchange," he argued that the use of curve analysis, i.e. opportunity cost curves, could be applied in the theory of foreign exchanges. In a footnote, he acknowledges that "much of the subject matter present here is based on Professor Haberler's *International Trade*."<sup>65</sup> By presenting the ways that (Austrian) value theory facilitates economic analysis, Machlup advanced the marginalist tradition. Foreign exchange theory needed updating in light of new stabilization mechanisms and economic doctrines; this meant an incorporation of monetary economics into the theory. Again, this assertion followed from Haberler's position in *Prosperity and Depression* that different business cycle theories could be reconciled in a more robust trade theory. The authors that Machlup cited extended beyond his fellow Austrians—including John Maynard Keynes, Arthur Gayer, Jacob Viner, and Thomas Balogh—suggesting an international orientation of his work. Nevertheless, Haberler and Hayek featured prominently in the discussion, the latter for his recent discussions of monetary policy in *Monetary Nationalism and Internationalism*.<sup>66</sup> Likewise, after devoting much of the preceding decade to perfect and imperfect competition, Machlup trained his focus on frictional costs and the importance of elasticity in international trade, topics that Haberler had broached in the mid-1930s. Much of his critical and methodological work challenged the confused

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<sup>64</sup> Ludwig Mises to Fritz Machlup, 29. June 1937, 15 June 1939, 8 April 1943, FMP, HIA.

<sup>65</sup> Fritz Machlup, "The Theory of Foreign Exchanges," *Economica* 6 (1939): 375-97 (here 375).

<sup>66</sup> *Ibid.*, fn. 2.

conceptual apparatus of American economists of international trade, especially with regard to the balance of payments, elasticity and equilibrium.<sup>67</sup> One fundamental point he raised repeatedly reflected his Austrian origins well: the primacy of pure theory over quantitative research. This required methodological individualism and subjectivism. As Machlup wrote when refuting arguments of elasticity pessimism, which undergirded positions in favor of exchange restrictions:

*The elasticity estimates of the past, even if they were correct, are hardly relevant to entirely different conditions.* But we should not press this issue; it might lead us into undue defeatism with regard to the value of quantitative empirical research. Surely we must avoid a naïve belief in the applicability of past ‘constants’ and ‘coefficients’ for the prediction of future economic quantities. But there is little merit in rejecting all quantitative research findings on the ground that ‘times change.’... We do not know enough about demand elasticities in international trade to say much about the degree to which past estimates, if correct, might be relevant in the future.<sup>68</sup>

Here Machlup restated the reservations that he and his fellow Austrians shared about quantitative analysis and its usefulness for prediction. He expressed skepticism about “constants and coefficients,” but urged more detailed research into international trade to reinforce and improve theoretical knowledge.

Machlup’s methodological and terminological investigations of the postwar years continued to draw on his Austrian intellectual background and the work of his fellow fourth-generation Austrians. In turn, he influenced his long-standing friends, especially. Haberler made use of Machlup’s “semantic” discussions of the balance of payments, equilibrium, and the dollar shortage to clarify his own arguments. In an article critical of the multiplier concept, he deployed Machlup’s semantic formulations first presented in

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<sup>67</sup> Machlup assembled these articles in *International Payments, Debts, and Gold* (New York: Scribner’s, 1964), especially Chapter I-III.

<sup>68</sup> Machlup, “Elasticity Pessimism,” in *International Payments*, 68. Italics his.

*International Trade and the National Income Multiplier*.<sup>69</sup> Haberler then published his *Survey of International Trade Theory* in Machlup's International Finance Section series. He provided Machlup with the only copy of the manuscript, asking for suggestions from his friend before publication.<sup>70</sup> This example is but one of many from the dense Machlup-Haberler interactions between 1934 and 1946, captured in their extensive correspondence. They wrote dozens of letters to one another into the 1960s and saw one another regularly—in Boston, Baltimore, and Princeton and at economics conferences. They also helped found a number of important institutions—Hayek's Mont Pèlerin Society and Machlup's Bellagio Group on international finance. Machlup and Haberler were the driving force behind the latter group, which gather together economists, bankers, and government officials from the developed world to discuss matters of international monetary policy.<sup>71</sup>

The elaboration of international economics drew Oskar Morgenstern back into theoretical discussions with Haberler and Machlup after emigration, a connection that is often overlooked in investigations of Austrian Economics. Scholarship on Morgenstern justifiably focuses on his contributions to the creation of game theory, yet he also continued to work on international trade and on the methodology of economics.<sup>72</sup> In particular, he used his skepticism regarding economic observation and forecasting to level sustained critiques of macroeconomic approaches to international economics. This placed Morgenstern's work in a closer relationship to his fellow Austrians than to other

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<sup>69</sup> Gottfried Haberler, "The Foreign Trade Multiplier: A Comment," *AER* 37:5 (1947): 898-906.

<sup>70</sup> Gottfried Haberler to Fritz Machlup, 25 January 1961, FMP, HIA.

<sup>71</sup> See Bellagio Group folder, FMP, HIA. On the Rockefeller Foundation support of the Group, see Princeton University—International Monetary System, RG 1.2, Series 200, Boxes 4680-1.

<sup>72</sup> On Morgenstern's methodology, see Marcel Boumans, "Observations in a Hostile Environment: Oskar Morgenstern on the Accuracy of Economic Observations," *HOPE* 44, supplement (2012): 114-36. See also Leonard, *Von Neumann*, 100-104.

economists. As Marcel Boumans has shown, Morgenstern's *Accuracy of Economic Observations* continued the theoretical work that he had begun in the late 1920s in *Wirtschaftsprognose*. In identifying the shortcomings of statistical data gathering and quantitative economic observation more generally, Morgenstern challenged the positivist optimism of midcentury econometricians and statistical economists. Therefore, despite his identification (primarily by others) with mathematical economics, Morgenstern nonetheless took a jaundiced view of the subfield, arguing for greater humility in the face of so much uncertainty.

Morgenstern applied these ideas in his deconstruction of midcentury economic data, arguing that not only were the findings of many economists wrong, but their very facts were fatally flawed. In "Demand Theory Reconsidered," Morgenstern attacked contemporary economics for its reliance on "unanalyzed global aggregates." While he recognized the desirability of describing aggregates, he felt that their "phenomenology" had not been explored, meaning that economists needed to build a robust theory by analyzing the composition and changes to the individual elements that comprised the aggregate.<sup>73</sup> This phenomenological reference introduced another Austrian, Alfred Schütz, into American methodological discussions.

In subsequent work, Morgenstern exposed the problems in several of the key data used by international economists: gold points and GNP. In *The Validity of International Gold Movement Statistics*, Morgenstern dissected the incoherence of gold statistics, arguing that their "utter uselessness" rendered any calculation of balance of payments impossible. Countries measured their reserves in different fashions, they defined inflows

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<sup>73</sup> Oskar Morgenstern, "Demand Theory Reconsidered," *Quarterly Journal of Economics* 62 (1948): 165-201. See also Morgenstern, *International Financial Transactions and Business Cycles* (Princeton: Princeton UP, 1959), 6-7.

and outflows inconsistently, and they recorded different data in their tables. When assembled, the gold movement data from the nations of the world simply did not add up. According to Morgenstern, since it was impossible to say anything definitive about international gold movements, one of the best measured quantities in economics, there was little hope for more comprehensive quantitative work in international economics.<sup>74</sup> Likewise, in the revised version of *Accuracy*, he devoted chapters to the reliability of business accounts and national production statistics, assessing each of these sets negatively.<sup>75</sup> This skeptical tone closely mirrors Machlup's in his piece on the incoherence of the concept of the balance of payments.

Morgenstern, alongside Haberler, also continued to work on trade cycle theory. His first major postwar research study, *International Financial Transactions and Business Cycles* drew direct inspiration from earlier work by the Vienna school and the proposals advanced at the 1936 international economics conferences. In correspondence with Haberler, Morgenstern referred to the need for more systematic study of international cycles. Both men recognized the sterility of purely theoretical business cycle studies à la Hayek's *Pure Theory of Capital*.<sup>76</sup> These exchanges enriched Morgenstern's financial transactions work and partially accounts for how long it took to complete (nearly two decades), its prohibitive length (nearly 600 pages), and its narrowed scope. While Morgenstern initially planned to offer a more comprehensive study of international business cycles, a want of reliable data restricted the book to an investigation of interest and exchange rates. His conclusions about the state of international trade cycle theory

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<sup>74</sup> Oskar Morgenstern, *The Validity of International Gold Movement Statistics* (Princeton: Princeton UP, 1955).

<sup>75</sup> Oskar Morgenstern, *On the Accuracy of Economic Observations*, 2<sup>nd</sup> ed. (Princeton: Princeton UP, 1963), especially Chapter 7.

<sup>76</sup> The high point of these interactions is between late 1938 and 1942, but they extend beyond this period.

strike a resoundingly Austrian chord: “The reader will quickly observe that a curious dilemma results: either we should reject most of our data in order to salvage large parts of previously abstracted and widely accepted theory, or, accepting the data we should modify the latter, chiefly by depriving it of much of its intended precision.” Morgenstern clearly favors the former approach, arguing that only from our accumulated theoretical knowledge can current economic problems be adequately formulated: “The various theories may have many faults, but they were thought out carefully, over many generations, with reference to manifold experiences. It would be unwise to brush this accumulated store of belief and knowledge aside, because there is no other guide for the first steps into the maze of concrete material.”<sup>77</sup> Morgenstern then summarized the current status of business cycle research, rehearsing Haberler’s typology from *Prosperity and Depression*. Finally, he called for more and better data gathering to make international investigations easier. He advocated comparative analysis into the “world economy” and the use of game theory to understand trade interactions. These techniques would help draw business cycle and international trade theory out of their current impasse.<sup>78</sup>

This kind of critical work—if not the solutions prescribed—positioned Morgenstern in the Misesian (and Mengerian) tradition of Austrian economics by arguing for a theory-first approach that was grounded in methodological individualism, subjectivism, and marginal utility.<sup>79</sup> Moreover, it helped fashion new connections to

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<sup>77</sup> Morgenstern, *International Financial Transactions*, vii, 7, 567-73.

<sup>78</sup> *Ibid.*, 4-39.

<sup>79</sup> It bears mentioning that Morgenstern suggested in *Theory of Games* that game theory was an elaboration of the individualist and subjectivist approach:

We believe that it is necessary to know as much as possible about the behavior of the individual and about the simplest forms of exchange. This standpoint was actually adopted with remarkable

Machlup in the 1940s and 1950s. Machlup and Morgenstern traveled in the same circles and worked on some of the same projects while in Austria, yet they maintained irregular in the 1930s, relying on Haberler to stay informed about one another.<sup>80</sup> Nevertheless, their work moved on parallel tracks: Morgenstern also wrote on monopoly and competition, albeit from a game theoretical standpoint (which Machlup criticized). Their respective work on international trade did not initially converge but by the end of the 1950s, Morgenstern was one of Machlup's champions at Princeton University. When the school hired Machlup for its International Finance Section in 1959, Morgenstern wrote Machlup a congratulatory note, saying "It is, indeed, a rare event that two old friends can join up again after such a long interruption—let us make the most of it!"<sup>81</sup>

One of the first ways that they rekindled their affiliation was by organizing a reunion of Ludwig Mises's Privatseminar on the occasion of his eightieth birthday at Princeton in September 1961. They invited Haberler, Hayek, Furth, Erich Schiff, Walter Fröhlich, Martha Steffy Brown, Ilse Mintz, and several other émigrés to attend. The Austrians deliberately separated their "family reunion" from a celebration in New York organized by Mises's American students. Machlup intimated to Lawrence Fertig that the inclusion of the American Misesians would dilute the Austrianness of the planned festivity:

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success by the founders of the marginal utility school, but nevertheless it is not generally accepted. Economists frequently point to much larger, more 'burning' questions, and brush everything aside which prevents them from making statements about these. The experience of more advanced sciences, for example physics, indicates that this impatience merely delays progress, including that of the treatment of the 'burning' questions. There is no reason to assume the existence of shortcuts.

John von Neumann and Oskar Morgenstern, *Theory of Games and Economic Behavior* (Princeton: Princeton UP, 1944), 7.

<sup>80</sup> Leijonhufvud, "Interview".

<sup>81</sup> Oskar Morgenstern to Fritz Machlup, 6 April 1960, FMP, HIA.

How many “friends of the family” can one invite to a family reunion before it becomes just a party? The “family” which we have in mind was the group of people who gathered around Mises every other Friday during practically all of the 1920’s and the early 1930’s. The idea was to reconvene this group (plus wives and widows) to the extent that the members live in the United States. Only the most important postwar friends could be added if this was really to be the reunion that we had in mind. As soon as there are more than a sprinkling of postwar friends the original idea is lost.<sup>82</sup>

Machlup drew a distinction between the earlier Austrian school and the contemporary American Austrian one. He did not explicitly favor one or the other, but he made it clear that he saw them as different and unrelated, save for a shared connection to Mises. He also did not suggest that the earlier school was unified intellectually (or that it ever had been); instead, their affiliation owed to a familial bond, which continued up to the present. Though the focus was on the historical connection of the Austrians rather than on a shared ideological patrimony, the tributes at the reunion, which highlighted the enduring influence of Mises and Austrian ideas on the work of the fourth generation, suggested that the Austrians continued to view themselves as part of a collective project.

By reasserting Austrian ties and elaborating these associational connections, I am not implying that these particular Austrians (or others of their generation) failed to form new academic, intellectual, and institutional affiliations or that they did not take their research into uncharted areas. Instead, I wish to highlight the continued relevance of the Austrian context for their development and their self-identification as economists.

A brief digression from international trade into Austrian institution building will further amplify this point. The fourth generation economists took great pains to reestablish their brand of Austrian Economics in their homeland and Europe more generally. As early as 1946 they returned to Vienna, hoping to restore the city to

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<sup>82</sup> Fritz Machlup to Lawrence Fertig, 5 July 1961, FMP, HIA.



intellectual greatness. As Hayek wrote to the RF, “There is clearly an opportunity to preserve Vienna as an intellectual centre, and the Austrians themselves are trying hard to get the help of those people who during the inter-war period have left Austria.... I am naturally most interested in seeing the tradition in Economics preserved.” Hayek proposed “to get some of the Austrian economists who are now located in the United States or in England to go to Vienna for a short concentrated course.”<sup>83</sup> He mentioned the names of Haberler, Machlup, Morgenstern, Mises, Schumpeter, Voegelin and Tintner. Haberler and Morgenstern eventually joined Hayek for a seminar in 1948 (Machlup and Voegelin had to withdraw). That these three men spearheaded the effort to restore Austrian economics is striking, since they are often presented as the most divergent among the fourth generation. The reports they filed described the humble yet promising conditions of the social sciences in Vienna. Hayek expressed disappointment with the absence of Mises and Schumpeter, since they would have further extended the survey of economics provided to Austrian students. After castigating the deplorable state of economics at Austrian universities, all three economists applauded the RF-supported *Institut für Wirtschaftsforschung* (WiFo), the successor to Hayek and Morgenstern’s institute, for reviving economic research. They all stressed the need for a fifteen- or twenty-year plan for restoring Austrian prominence. As Hayek opined, it would only take the return of one or two accomplished scholars as endowed professors “completely to alter the atmosphere.”<sup>84</sup> Ultimately what comes through in the reports is that Austrian Economics represented a broad tradition that was alive and well in its American form. Restoration in Austria was merely a matter of resources.

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<sup>83</sup> Friedrich Hayek to J.H. Willits, 31 October 1946, RG 1.1, Series 700, Box 2, Folder 15, RAC.

<sup>84</sup> Friedrich Hayek, “Report on Visits to Austrian and Switzerland,” RG 1.1, Series 700, Box 2, Folder 15, RAC.

The Austrian émigrés struggled to elevate the stature of the social sciences in postwar Austria, striving to enlist support for new research centers. Austrian Economics was always a prominent consideration of these attempts. Hayek, Morgenstern, and the sociologist Paul Lazarsfeld established an Institute for Advanced Studies in Vienna in the 1950s and early 1960s.<sup>85</sup> After some initial struggles, the IHS became one of the leading European centers of social scientific research. A large number of émigrés, including economists, made their way back to Vienna to teach summer courses and serve as visiting professors. Morgenstern, Haberler, and Tintner all participated, with Tintner permanently returning to Vienna. In the 1960s Machlup helped found a new comparative economics project, the Wiener Institut für international Wirtschaftsvergleiche (WIIW), that was affiliated with the IHS and WiFo. Machlup's efforts to conduct comparative economic studies of Western and Eastern European countries can be seen as a direct descendent of Morgenstern's comparative work in the Habsburg successor states during the 1930s. Although neither the IHS nor WIIW restored "Austrian Economics" in its original home, it demonstrated the commitment of the fourth generation to the preservation and elaboration of an Austrian tradition.

### *Conclusion*

In the 1970s, there was a "rebirth" of Austrian Economics, involving conferences and panels, articles and books, academic programs at New York University and George Mason University, interviews with the Austrian émigré economists, and other initiatives. This newfound interest also precipitated a search for a usable past, which produced an

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<sup>85</sup> On the IHS, see Christian Fleck, "Wie Neues nicht entsteht," *Österreichische Zeitschrift für Geschichtswissenschaften* 11 (2000): 129-77.

authorized version of the Austrian tradition. This consensus interpretation had the ironic effect of effacing the Austrianness of the fourth generation of the original school and its post-emigration work. The promotional materials for the GMU program reflect this well:

Carl Menger founded the Austrian School in Vienna in 1871 with his pathbreaking *Principles of Economics*. The ideas of Menger were further developed by two of his students, Eugene Böhm-Bawerk and Friedrich von Wieser. During the early twentieth century, the works of the Austrians were widely acclaimed and many of the ideas were absorbed into the mainstream of economic thought. This popularity grew in the twenties and thirties due to the works of such Austrians as Ludwig Mises, Friedrich Hayek and Lionel Robbins. After the war, the Austrian tradition was spread further by many of Mises' most prominent students, such as Fritz Machlup, Oskar Morgenstern, and Gottfried Haberler, who taught at New York University, Princeton, and Harvard. In 1974, Friedrich Hayek won the Nobel Prize for his contributions to economic science, an event which helped spark the tremendous revival of interest in the Austrian School which has been seen in recent years.<sup>86</sup>

The timeline presented is a curious one. While it recognizes the role of Austrian émigré economists in spreading the tradition, it does not say that they advanced it in any way. It overlooks that generation's contributions in the interwar era, suggesting that Mises, Robbins, and Hayek were the true exemplars of that era. It also suggests a lacuna between the end of the war and 1974. This interpretation fit well with the self-presentation of the postwar Mises circle, which viewed itself as a marginal movement of true believers that only came out of the wilderness in the seventies. For the metaphor to work, someone had to go in their first.

Coinciding with the rebirth, the *Encyclopedia of Social Sciences* commissioned Machlup to write an encyclopedia entry, "Austrian Economics." Early drafts hewed closely to the developing consensus opinion. Machlup offered up a brief history of the movement, eight core propositions of the school, and a discussion of "Austrian

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<sup>86</sup> "Austrian Economics," George Mason University pamphlet, Box 26, Folder 28, FHP, HIA.

Economists,” “non-Austrian Austrians,” and “un-Austrian Austrians.”<sup>87</sup> Machlup circulated his essay to his friend and fellow Austrian Herbert Furth, who called into question Machlup’s overall thesis, which overlooked the contributions of the fourth generation and presented a somewhat teleological account of the movement from Menger to Mises to the libertarians of American Austrian Economics. In challenging Machlup’s portrayal, Furth presented an alternate history of the movement.

That this revisionist task fell to Furth fits well with the thesis advanced in this essay, since his shifting identification with Austrian Economics reflected the constant evolution of the tradition and its continued existence in postwar America. Born in Vienna in 1899, he became close friends with Friedrich Hayek upon arrival at the University of Vienna in 1918. The two founded the Association of Democratic Students that year and later formed the *Geistkreis*, a circle of young intellectuals that included most future members of the fourth generation of the Austrian School. He and Gottfried Haberler were became brothers-in-law in the 1920s. He practiced law until the Anschluss, when, as a Jew, he had to flee Austria for the United States, receiving a position at Lincoln University. In the early 1940s he became an adviser to and employee of the Federal Reserve Bank, where he worked until retirement.

Despite his friendship with Hayek, Furth did not consider himself an economist; he was never a member of the Miseskreis, for example. In the twenties and thirties, he was hardly an “Austrian Economist” since he was so far removed from their intellectual discussions. Ironically, it was only in American exile that he became one. In his work, he

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<sup>87</sup> Fritz Machlup, “Austrian Economics,” in *International Encyclopedia of the Social Sciences*, ed. Douglas Greenwald (New York: McGraw-Hill, 1982), 38-43. Drafts are in the Machlup Papers. Machlup also solicited the views of Israel Kirzner, who argued for the inclusion of Lachmann and Rothbard if non-Austrians were included. He seconded Furth’s comments on methodological and political individualism, to be discussed presently. See Kirzner to Machlup, 9 July 1979, Fritz Machlup Papers, HIA.

drew closer to Haberler and Machlup on international trade, as they all wrestled with global economic problems. The three of them engaged in spirited discussions about balances of payments, the dollar shortage, the gold exchange standard, and (anti-) inflationary measures. Despite their diverging policy prescriptions and political affiliations—Furth supported Democratic positions, Machlup endorsed Stevenson before entering the Republican camp, and Haberler was a staunch conservative—they constituted a node of Austrian inquiry.

Given his longstanding connection to the Austrian tradition and his reputations for sharp opinions and voluminous responses, Furth was an ideal critic for Machlup's article and its conventional argument. Furth expressed several reservations. First, he disagreed that a "verbal approach" characterized Austrian Economics. By that logic, Morgenstern would be "un-Austrian", a position he (and others) rejected outright.<sup>88</sup> He also refused to grant that Joseph Schumpeter did not belong to the tradition. He accused Machlup of overrating Mises—"a narrow-minded dogmatic fanatic"—and of mistakenly asserting the centrality of political individualism to the movement. He argued that the principles of consumer sovereignty and political individualism were controversial within the school and only represented the views of Mises and his followers. Furth's interpretation of the Austrians was thus considerably broader than Machlup's.

In his response, Machlup claimed that he was following the conventions of the existing literature, including the work of Hayek himself, by excluding Schumpeter, who had "absorbed so many other influences...that he cannot be wholly regarded as a member

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<sup>88</sup> Furth to Machlup, 27 June 1979, Box 39, FMP, HIA. Karl Menger likewise considered Morgenstern one of the most significant extenders of Austrian Economics. Karl Menger, "Österreichischer Marginalismus und mathematische Ökonomie," *Zeitschrift für Nationalökonomie* 32:1 (1972): 19-28.

of this group.”<sup>89</sup> He refused to recognize mathematical approaches as compatible, and he rejected that he overrated Mises. The one concession he made was to create a separate “controversies” section of the article, where he located Mises’s more problematic ideas.

The epigraph for this article comes from Furth’s final answer to Machlup, which coyly demonstrates the absurdity of Machlup’s justifications and conclusions. Furth rejected that any one person, be it Hayek, be it Mises, had the unilateral right to include or exclude members. Additionally, Hayek’s logic for excluding Schumpeter—that Schumpeter took on too many other influences—produced the ironic consequence of excising the entire fourth generation, *including Machlup*, from Austrian Economics! After all, who hadn’t taken on other influences throughout their careers? As we saw in the George Mason pamphlet, emphasis on doctrinal purity led to the privileging of one strand—Mises’s—over all others and hence the identification of consumer sovereignty and political individualism with Austrian Economics. Furth therefore implored Machlup not to remain silent on the faulty conflation of Austrian Economics with radical libertarianism. Machlup had to mention that this belief represented a Misesian deviation from the Austrian tradition and not the mainstream of it. Usually a careful observer of terminological and semantic distinctions, Machlup succumbed to the belief in a unified definition of Austrian Economics—an interpretation that Furth felt flew in the face of the school’s historical reality.

Furth’s argument in the Machlup letters and the epigraph above serve as the starting point for this investigation into the “lost generation” of post-emigration Austrian Economists—Haberler, Machlup, Morgenstern and even Furth. Following Furth, this paper argued that we must recover the work of the Austrian fourth generation between

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<sup>89</sup> Machlup to Furth, 16 July 1979, Box 39, FMP, HIA.

the 1930s and 1960s if we wish to develop a fuller, less dogmatic understanding of Austrian Economics. Haberler, Machlup, and Morgenstern did not simply turn away from their Austrian training after emigration; in important ways, they revised, elaborated and advanced it. Moreover, these Austrians enriched and extended their Austrian intellectual networks in their adoptive American homeland, producing an alternate American Austrian tradition, which manifested itself most clearly in international economics. By tracing the evolving network of fourth generation Austrian economists from the 1930s to the 1950s and their shifting collaborations, a stimulating variant of Austrian Economics emerges that could provide new avenues for research about (and within) the Austrian tradition.