

## ECO 171S: Hayek and the Austrian Tradition Syllabus

Spring 2011  
TTH 10:05 – 11:20 a.m.  
Room : Social Science 327

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In 1871 the Austrian economist Carl Menger published an economics textbook, *Principles of Economics*, which became the founding document of the Austrian tradition in economics. Menger's name is typically associated with two other founders of the so-called Marginal Revolution, William Stanley Jevons and Léon Walras, and indeed in the first half century of the School's existence it was simply one strand of what would become the mainstream approach in microeconomics. Starting sometime in the 1930s, however, the Austrians began to diverge from the mainstream in a variety of ways, and was itself marginalized. In the 1970s a revival of interest in the Austrian approach began, one that sought both to identify the key elements of tradition in the works of the past, and to extend it through applications to current problems and concerns. This revival followed the awarding in 1974 of the Nobel Prize in economics to Friedrich A. Hayek, one of the figures most identified with the Austrian movement. His contemporary relevance is hinted at in the newspaper article and videos that you read and viewed before this class.

The course will examine the emergence of the Austrian tradition, emphasizing the historical context in which it arose and the distinct ideas that are associated with it. Hayek's specific contributions, in both economics and beyond, will be highlighted.

### Course Structure and Requirements:

The course will principally be run as a seminar, where we discuss common readings. Caldwell will sometimes lecture, and may lead the discussion on certain topics; student seminar leaders will lead the rest. Whatever the format, the basic requirement is to have read and thought about the material **before class**, and even if the format is a lecture, to be ready and able to discuss it. To encourage you, before certain classes students will be asked to prepare a (2 page max) typed "response" to the assigned reading, and will turn these in at the end of the class. The "responses" should provide us with a good starting point for our class discussions.

The syllabus should be considered provisional, and the order of topics may change. The number of topics ultimately covered will depend on how quickly we move through the material. We may have an outside speaker, and other faculty and guests may visit or take part in the class from time to time.

Grades will be based on the following: 30% for the assigned “response” papers, for performance leading the seminar presentations, and for general seminar participation; 30% for performance on a take home exam, which students will have one week to write; and 40% for a term paper. For a seminar to be a success, everyone must attend class and participate. If you cannot commit to this, this is not the class for you. Any absence not approved in advance by me is graded as a zero, as is any failure to turn in the reading response. I will attempt to keep you informed about your performance/participation grade during the semester through Blackboard.

The term paper should be 15 to 20 pages, typed, plus a bibliography. You must have your topic chosen by an agreed upon date in February, an outline and initial bibliography turned in by an agreed upon date in March, and the final draft of the paper is due **April 7**. I will read them and choose four for classroom presentations, which will take up the last two sessions of class. A list of acceptable topics is included at the end of the syllabus; the set of possible topics is infinite.

Students are warned that the Duke Community Standard’s prohibition on plagiarism is in effect, enforced, and taken very seriously. Each student is responsible for knowing what constitutes a violation. I should perhaps add that I am not as stupid as I look, and though I have not read everything, I know others who have, and can consult with them readily if suspicious.

Students will purchase the two texts indicated below. PDFs of other material (articles and book excerpts) will either be posted on Blackboard or their availability online will be noted.

Texts:

Bruce Caldwell, *Hayek’s Challenge: An Intellectual Biography of F.A. Hayek*. Chicago: University of Chicago Press, 2004. paperback.

F.A. Hayek, *The Road to Serfdom: Texts and Documents*, edited by Bruce Caldwell. Chicago: University of Chicago Press, 2007. paperback.

## Course Outline

### 0. Some Things to Watch and Read before the First Day of Class

“Fear the Boom and Bust” <http://www.youtube.com/watch?v=d0nERTFo-Sk>  
“I’m in Love with Friedrich Hayek”

<http://www.youtube.com/watch?v=psosLpDALuA>

Virginia Postrel, “Friedrich the Great,” *Boston Globe*, 01/11/04

[http://www.boston.com/news/globe/ideas/articles/2004/01/11/friedrich\\_the\\_great/](http://www.boston.com/news/globe/ideas/articles/2004/01/11/friedrich_the_great/)

1. Background and Overview

- a. Some background on economic methodology and on the history of economic thought before the Austrians
- b. The Marginal Revolution
- c. The Austrian School, then and now

Readings:

Bruce Caldwell, "Positivism," available at *New Palgrave* online via Perkins  
Bruce Caldwell, introductory chapter of *Hayek's Challenge* (henceforth HC)  
Jacob Viner, "Adam Smith and Laissez Faire," 1927 – Blackboard  
Philip Mirowski, "Physics and the 'Marginalist Revolution'," *Cambridge Journal of Economics*, 1984 – Blackboard  
Peter Boettke and Pete Leeson - "The Austrian School of Economics, 1950-2000" – Blackboard

2. Menger's *Principles*

Readings:

Carl Menger, *Principles of Economics*, Preface, Chapter 1, pp. 94-101 of Chapter 2, pp. 121-141 of Chapter 3, Chapter 5, & pp. 257-62 of Chapter 8, Mises Institute (henceforth MI): [www.mises.org](http://www.mises.org)  
Caldwell, HC – Chapter 1

3. The *Investigations* and the *Methodenstreit*

Readings:

Gustav Schmoller's Review of Menger's *Principles* – HC, Appendix A  
Caldwell, HC – chapters 2, 3 & 4  
Carl Menger, *Investigations*, Book 1, Chapters 7 & 8, MI

4. Positivism and Socialism, and the Transition to Hayek

Readings:

Handout – Chronology of the Austrian School  
Caldwell, HC – chapters 5 & 6

5. Monetary Theory and the Debate with Keynes

Readings:

Hayek, *Monetary Theory and the Trade Cycle*, chapter 1 – MI  
Caldwell, "Editors introduction," *Contra Keynes and Cambridge* – Blackboard  
Roger Garrison, *Time and Money*, chapter 1, Garrison website

<http://www.auburn.edu/~garriro/tamchap1.htm>

Garrison, Chapters 3 & 4 – Blackboard

Hayek, “The Keynes Centenary: The Austrian Critique” – Blackboard

## 6. The Socialist Calculation Debate(s)

Readings:

Ludwig von Mises: “Economic Calculation in the Socialist Commonwealth,” pp. 87-110, 116-22, concluding paragraph – MI

Oskar Lange, “On the Economic Theory of Socialism” – Blackboard

Hayek, “Socialist Calculation III: The Competitive ‘Solution’” – Chapter 9 of *Individualism and Economic Order (IEO)*. – MI

Israel Kirzner, “The Economic Calculation Debate: Lessons for Austrians” – Blackboard

## 7. Economics and the Knowledge Problem

Readings:

Hayek “Economics and Knowledge” – Chapter 2, *IEO* – Blackboard

Hayek, “The Use of Knowledge in Society” – Chapter 4, *IEO* – Blackboard

Hayek, “The Meaning of Competition” – Chapter 5, *IEO* – Blackboard

## 8. The Abuse of Reason Project and *The Road to Serfdom*

Readings:

Caldwell, “Editor’s Introduction,” pp. 1-45, *Studies on the Abuse and Decline of Reason* – Blackboard

Hayek, *The Road to Serfdom*, Prefaces, Foreword, and Hayek’s Introduction (that is, pp. 37-64), then Chapters 1 – 11.

## 9. Hayek’s Political and Social Philosophy

Readings:

Hayek, “Individualism: True and False,” pp. 46-74, *Studies on the Abuse and Decline of Reason* – Blackboard

Hayek, “Liberalism” – Blackboard

Hayek, “The Errors of Constructivism” – Blackboard

Excerpts from *Constitution of Liberty and Law, Legislation, and Liberty*

## 10. Mises and Kirzner on Method, the Market Process and the Entrepreneur

### Readings:

Ludwig von Mises, *Human Action*, chapters 1, 2 & 4 – MI

Mises, “Profit and Loss” – MI

Israel Kirzner, “Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach,” *Journal of Economic Literature*, March 1997 – JSTOR

## 11. Spontaneous Orders, Complex Phenomena, and Hayek’s Challenge to Economics

### Readings:

Hayek, “The Theory of Complex Phenomena” – Blackboard

Hayek, “The Pretence of Knowledge” – Blackboard

Hayek, “Cosmos and Taxis” or “Epilogue” or some other reading from *LLL*

Caldwell, HC, last chapter.

## 12. Class Reports

### Possible Paper Topics

Review and assess the debate between Caldwell and Joseph Salerno on the proper interpretation of Hayek’s role in the Austrian School pantheon.

The Austrian economists defend their approach as value free. Others claim it is just apologetics for markets. Describe and assess the debate.

Herman Finer wrote *Road to Reaction* as an explicit attack on *The Road to Serfdom*, and nearly provoked a libel suit. Explicate and assess his arguments, given your knowledge of Hayek’s work.

Does Hayek believe that once you have a little bit of government intervention, it is a slippery slope: you must end up in a totalitarian state? Analyze the various interpretations of Hayek’s thesis, and arguments on various sides, then draw your conclusions.

Evaluate the *Methodenstreit*. Was either side right? Was it a waste of intellectual energy (Schumpeter), or are both sides necessary in science (Marshall)?

Write a paper on Hayek and Chicago School economist Milton Friedman, or Hayek and public choice theorist James Buchanan, noting contrasts and complementarities in their ideas.

What was Hayek's relationship with the philosopher Karl Popper, as revealed in their correspondence in the Hayek archives.

German readers – do some work in either the Menger or the Hayek archives in which Hayek corresponds in German. Work on something significant. See me for possibilities.

Using Garrison's framework, explicate the difference between labor, monetary, and capital-based macroeconomics, and the Keynes-Hayek debate.

Assess the arguments in Garrison's book against the claims made by Gottfried Haberler in his 1986 *Cato Journal* piece, "Reflections on Hayek's Business Cycle Theory."

How do Hayek and Mises differ on methodology? Review Greg Ransom's thesis. Does it make sense? Or is Pete Boettke right that the way to read Mises is through Hayek's glasses, and vice versa?

What was Hayek's contribution to psychology? To what extent does it diverge from, and to what extent does it anticipate, more recent work?

What was Hayek's contribution to complexity theory? To what extent does it diverge from, and to what extent does it anticipate, more recent work?

Read and write a critical review of Mises' *Human Action*, or Hayek's *Law, Legislation, and Liberty*, or *The Constitution of Liberty*. (These are all big, weighty books.) Respond to the books on some level.

Take a current policy issue and research and assess the Austrian stance, and show how it differs from mainstream views. Which is more convincing as an approach to the topic?

Provide an Austrian assessment of Cass Sunstein's and Richard Thaler's views in *Nudge*. How would those authors respond?

Propose a topic to me.