THREE ESSAYS IN THE HISTORY OF ECONOMICS

by

John Kroencke
A Dissertation
Submitted to the
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of
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in Partial Fulfillment of
The Requirements for the Degree
of
Doctor of Philosophy
Economics

Committee:

_____ Director

_____

_____

_____ Department Chairperson

_____ Program Director

_____ Dean, College of Humanities and Social Sciences

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John Kroencke
Master of Arts
George Mason University, 2017
Bachelor of Arts
Hampden-Sydney College, 2016

Director: Peter J. Boettke, University Professor of Economics and Philosophy
Department of Economics

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Fairfax, VA

DEDICATION

To my parents, Eric and Rebecca, for their support from the start.

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LIST OF ABBREVIATIONS

American Economic Association ..... AEA
American Sociological Association ..... ASA
Center for the Study of Market Processes ..... CSMP
Federal Housing Administration ..... FHA
George Mason University ..... GMU
Institute for Research on Land Economics ..... IRLE
National Association of Real Estate Boards ..... NAREB
Standard State Zoning Enabling Act ..... SZEA
Thomas Jefferson Center for Studies in Political Economy ..... TJC
University of California, Los Angeles ..... UCLA
University of Virginia ..... UVA
Virginia Polytechnic Institute and State University ..... VPI

ABSTRACT

THREE ESSAYS IN THE HISTORY OF ECONOMICS

John Kroencke, Ph.D.

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Dissertation Director: Dr. Peter J. Boettke

This dissertation looks at the interaction between economics and public policy. Contemporary public policy debates often rely on economic analysis and prognosis. Economists often seek to inform and reform public policy. In three chapters, I complicate the notion of the economist as a neutral expert insulated from political philosophy.

The first chapter examines the role of economist Richard T. Ely and figures associated with his Institute for Research in Land Economics in residential housing research and policy during the interwar period. As part of this, it builds on the work of urban historians and planners to argue that Ely and his Institute played an important role in promoting policies that encouraged residential segregation. These aspects of Ely's career are effectively missing from the contemporary history of economics literature despite the importance of the topic of residential segregation and the recent interest in the role of racial thinking in economics. Ely wrote and edited prominent textbooks which gave a justification for increased government involvement in land use based on his social

theory of property. Ely's Institute for Research in Land Economics in partnership with the National Association of Real Estate Boards provided academic training for all Realtors in the country. As part of this training, Realtors were taught about the role of deed restrictions and the role of race in real estate values. I examine Ely's intellectual background, his academic work, and his foundational role in an academic network that helped establish a formal system of residential segregation that was grounded in their social scientific principles and findings.

The second chapter looks at the efforts of James Buchanan and others associated with the Virginia School of Political Economy to keep institutional analysis and political philosophy within the economic discipline. It was coauthored with Peter Boettke and was published in Public Choice (2020). Using archival material from the Thomas Jefferson Center for the Study of Political Economy and first-person recollections from relevant figures, we reconstruct James M. Buchanan's mission (in partnership with G. Warren Nutter) to "save the books" in the related but distinct disciplines of economics and political economy. From his graduate days at the University of Chicago in the late 1940s, Buchanan was worried about dominant trends in mainstream economics which would carry the field away from its core. In particular, Buchanan was worried that political economy was becoming unmoored from the types of philosophic and institutional analysis which were previously central to the field. In its flight from reality, Buchanan feared economics was in danger of abandoning social-philosophic issues for exclusively technical questions. More than this, Buchanan feared that economists were asserting their authority as benevolent social planners. In response to these fears, Buchanan sought to

(re)create an economics which would balance the science of economics and the art of political economy—an economics which began with an explicit commitment to democracy and would integrate philosophy, institutional thinking, and technical, price-theoretic economics, into a coherent working paradigm for research and graduate education.

The third chapter assesses the challenges to and opportunities for economics presented by developments in the philosophy and sociology of science literatures. It was coauthored with Jayme Lemke and is published in The Review of Austrian Economics (2020). The "science wars" are a contentious, ongoing series of debates about the nature of knowledge and the proper role of the scientific method. The participants take many forms, but always central to the controversy are postmodern ideas that challenge commonly accepted understandings of the objectivity of data, science, and sometimes even reality. In this chapter, we consider the relevance of these debates for the practice of economics. Ultimately, we propose that these debates present two opportunities and a significant challenge to the discipline of economics. The opportunities are: 1) to incorporate post-positivist philosophy of science as a way to better interpret the meanings that become attached to institutions, which is particularly important for studies of political hierarchy and oppression, and 2) to do better empirical work by robustly incorporating interpretation into the gathering and analysis of data. The challenge is to do this work without abandoning economic theory itself, preserving the critically important insights of the universal logic of human choice while abandoning the illusion of a single best scientific method.

CHAPTER ONE - RICHARD T. ELY, HOUSING RESEARCH, AND INTERWAR RESIDENTIAL SEGREGATION

1.1 Introduction

If they know his name at all, many contemporary economists only know Richard T. Ely as the former namesake of the annual American Economic Association (AEA) keynote address whose name was stripped from the lecture in 2020. While Ely and the type of economics he practiced have largely been left outside of the mainstream of the profession, they were quite prominent within the nascent field of American economics; Ely's name adorned the keynote address because he was a cofounder of the AEA. Moreover, like later economists, Ely played a role beyond the groves of academe. Unlike economists, American historians of the period may much of Ely's earlier work on labor economics, his leading role in what became American institutionalist economics, and his role in the Social Gospel movement. Despite these actions, Ely was also a eugenicist and racist. While historians of economics have written about Ely's eugenic beliefs, his name was removed not only because he believed in eugenics, but also because he "favored segregation" ("AEA Renames Annual Richard T. Ely Lecture" 2020). In fact, Ely's connection to segregation was more than just passing support.

Towards the end of his life, Ely focused primarily on issues of land economics. Ely was the "father of land economics" and an early supporter of the academic study of real estate markets. Beyond academic interest, he also played an important role in

interwar national housing policy through his Institute for Research on Land Economics (IRLE) as argued by planning scholar Marc Weiss in the most extensive work on Ely's influence on housing policy that provides a compendium of the work of not just Ely but his most prominent students and colleagues (1989). While the IRLE would shutter due to financial difficulties and Ely's retirement, Weiss shows how many of the ideas spread by the organization before the Depression influenced national policy through early federal agencies created in the wake of the crash.

More than just producing anodyne research and policy recommendations, the Institute for Research on Land Economics (IRLE) promoted segregationist ideas and helped train the people who had power in residential markets. While the reasons and interests of individuals in segregation varied, Ely and Institute provided a social scientific rationale for segregation as part of a broader interest in regulating housing markets in line with his view of the social theory of property. The IRLE's influence was carried forward by partnership with important organizations which helped secure residential segregation across the United States: these included the National Association of Real Estate Boards (NAREB) and the earliest federal housing agencies in the 1920s and 1930s.

While the work of the Institute and Ely's interest in housing markets was wide-ranging, the research and policies had important racial components as urban historians have noted. His later career has received much less attention, except from those with an interest in urban history e.g. (Glotzer 2020; Fogelson 2005; Hornstein 2005). Historians of economics have examined the intellectual context, academic work, and political influence of progressive and institutionalist economists including Ely, e.g. (Bateman 2008; 2001;

1998; Leonard 2016; 2015; 2009; 2005; Rutherford 2011; 2000). And after years of neglect-- (Cherry 1976) is a notable early exception-- historians of economics have also examined the racial beliefs of economists and the role of these beliefs in their life and work e.g. (Magness and Harrigan 2020; Ballandonne 2020; Fiorito and Orsi 2016; Leonard 2005; Bateman 2003). His work on land economics has received less attention from recent scholars with few exceptions e.g. (Ramsey 2004; McMaster and Watkins 2006) but is discussed in his autobiography and in Rader's academic biography of him (Ely 1938; Rader 1966).

There is also ongoing interest within economic history on the interaction of race and housing policy (Shertzer and Walsh 2019; Shertzer, Twinam, and Walsh 2016; Kollmann and Fishback 2011; Collins and Margo 2011; Snowden 2018). The topic has attracted popular interest as part of broader discussions of race in the United States—perhaps most notably in Richard Rothstein's The Color of Law (2017) and Ta-Nehisi Coates's "The Case for Reparations" (2014).

The primary purpose of this chapter is to shed light on an aspect of the history of economics largely unexamined within the profession up until this point. It fills a gap in the history of economics literature by doing highlighting Ely's role in the complex phenomenon of racial segregation. More specifically seeks to: 1) intellectually reconstruct the broader Ely project; 2) show how Ely's ideas operated in the field of housing reform; and 3) build on the work of urban historians to document the connection between the Ely project as a whole and segregationist housing policy.

The chapter proceeds as follows: Section 2 explores Ely's beliefs and writings, focusing on those crucial to understanding his perception of the role of economists in policy, his land economics and his views on race and eugenics. Section 3 provides an understanding of the context of interwar housing markets and earlier housing reform efforts. Section 4 examines Ely's role in the implementation of racist housing policies, particularly through his Institute, students, and colleagues. Section 5 concludes.

1.2 The Man and his Ideas: Richard T. Ely, Reform, and Economics

Richard T. Ely (1854-1943) was active in academia, policy, and social reform movements for most of his long adult life. To understand Ely, one must appreciate the role of religion in his life and work.[1] From his childhood in New York through his work as Social Gospeler and beyond, Ely was imbued with moral certainty and a crusading spirit of reform that manifested itself in his efforts to influence policy. Ely's religious conviction and training in Germany manifest themselves in his conception of economics (Herbst 1965, 183–84). Like younger reform-minded economists and unlike earlier more laissez-faire economists in the United States, he viewed economics as a field which should bear fruit not just shed light. Unlike later economists whose economics is more accessible to economists now (even if they rarely read them), Ely rejected a narrow conception of economics. Instead, he thought economics was closely related to ethics. As such, his analysis was often wide-ranging and his view of what today's economists would think about as social welfare was essentially religious: those reforms which could make the earth

[1] On the first page of his autobiography, Ely writes, "The heritage and traditions built up since 1660 have been strong and inescapable influence in my life." Ely veered from Presbyterianism to Unitarianism while at Columbia College before eventually becoming an Episcopalian (Ely 1938).

closer resemble the kingdom of heaven were the reforms which should be undertaken (Gonce 1996).

After attending Columbia University, Ely, like many of his generation, went to Germany to pursue graduate studies.[2] There he studied under Karl Knies, a member of the German Historical School. Ely was also a talented academic entrepreneur throughout his life. He is primarily remembered for his early role as a founder of the American Economic Association and as a professor at Johns Hopkins and the University of Wisconsin, but he was an important figure in a variety of organizations. His role in the popular Chautauqua movement, for instance, gave him influence across the country (Ely 1938; Rader 1966).[3]

He was also active in state politics from his perches at both Johns Hopkins and the University of Wisconsin. In Wisconsin, in particular, Ely played an important role in the Wisconsin Idea formulated by John Bascomb: the belief that higher education should serve the people through informing the actions of the state (Hoeveler 2016). In addition to students like Alvin Hansen, John R. Commons, Edward A. Ross, Thomas Nixon Carver, and Frederick Jackson Turner who went into academia, Ely taught important bureaucrats like Ernest Fisher at the Federal Housing Administration, and politicians including Woodrow Wilson (Rader 1966, 26–27).[4] This continued social standing, perhaps more than

[2] Graduate programs in the social sciences had yet to be started in the United States. Most of the economic or political economy education that students received was in a capstone course in moral philosophy.
[3] The Chautauqua movement was an important progressive institution which combined adult education, Christian piety, and summer camp. Originally starting with annual summer retreats in Chautauqua, New York, the movement spread to "daughter" Chautaquas which were formed throughout the country. Chautauqua was a driving force in the Social Gospel movement. It was through the movement that prominent academics, activists, and theologians would provide the religious and social scientific teaching to middle-class community members who were working on the frontlines to rid social evils. See (Rieser 2003).
[4] Academic tree. (Thies and Pecquet 2010) examines the role of Ely in Wilson's thought.

the depth of his analysis, was what maintained his influence into his later years (Rader 1966, 175). While widely known at the time, key aspects of Ely's general worldview are little understood now but crucial to understanding his motives.

1.2.1 Social Gospel, Reform, and Ethical Economics

> I take this as my central thesis: Christianity is primarily concerned with this world, and it is the mission of Christianity bring to pass here a kingdom of righteousness and to rescue from the evil one and redeem all our social relations. (Ely 1889, 53)

Ely's zeal for reform and his conception of the proper role of economists must be understood in the context of his religious faith. Ely was an adherent of postmillennialist Christian: a theological position which held that the Second Coming of Christ would only occur after a golden age of Christian ethics, as against the premillennialist position that Christ's return would herald a golden age. Accordingly, the faith placed utmost importance on social betterment to create the Kingdom of God. As (Quandt 1973) argues, this utopian vision became increasingly secular: it was less about the supernatural characteristics of the religion and more about the world surrounding its believers and the pragmatic questions of reform. Fogel captures this well: "To many of those who embraced the Social Gospel message, the value and truth of religion were shown by the capacity to create God's kingdom on earth rather than in the hereafter. The essence of religion became the elimination of poverty and inequality" (2000, 121).

In this conception, progressive scientific advance would bring about the kingdom of heaven through gradual social reform. Bateman argues that the economic changes of the middle to late 19th century led to a change in theology: many theologians "began to argue

that the Kingdom of God referred not only to the need for the salvation of individual souls but also to the need to build new and more just social institutions" (1998, 33).[5]

In founding the AEA, Ely and his fellow radical economists sought to displace what they saw as rigid, naïve, laissez-faire economics in the United States with a scientific enterprise for human betterment, one which would carry out "a never-ceasing attack on every wrong institution, until the earth becomes a new earth, and all its cities, cities of God" (Ely 1889, 73). This theological conception was intimately connected with the early history of the AEA (Coats 1985; 1960; M. A. Bernstein 2008; Bateman and Kapstein 1999). In the first prospectus for the association, Ely declared the State to be, " an educational and ethical agency" (Adcock 2014, 165). The goal of many of those in the early AEA was to accomplish ethical ends through scientifically determined means implemented by the State. While there was disagreement within the organization and the composition of the AEA would change over time, this background is crucial for understanding Ely (Coats 1960, 561–63).

1.2.2 Eugenics and Racial Thinking

Despite this concern for societal improvement, an additional aspect of Ely's thought that he shared with some, but not all, of his contemporary progressives was a belief in eugenics. Ely's eugenic beliefs are well documented. He expressed them forthrightly in his academic works and private papers. This thinking was not unique to Ely: prior to the

[5] Technological advance and implementation were largely looked upon with favor for their ability to produce goods and increase quality of life. While they may have been derided for their drawbacks, once the inequality and social ills they created were properly accounted for, they were a net positive for society.

adoption of eugenic policy in Nazi Germany and the run-up to the Second World War, academic eugenic thought proliferated in the United States (Leonard 2009, 136; 2005, 215–16). Colleges and universities had courses on the subject and foundations openly funded research on it. Recent work has mostly emphasized these beliefs of Ely in the decades prior to my focus on the interwar period. While his public statements became somewhat less astringent, it is clear from the historical record that his beliefs did not change substantially.

First, there is evidence of this type of thinking in his published works. For instance, in a book on leadership directly after the First World War, Ely ruminates on the inequality of man: "The progress of biological science in recent decades, particularly of the science of heredity, has given us new data concerning human faculties, and new views regarding the innate differences among men from which have been deduced a new social philosophy and a new outlook upon life. The great outstanding fact is that of inequality among men" (Ely 1918, 71). More than just remarking on the research findings, Ely quotes Anton Menger[6], who says that "There is no greater inequality than the equal treatment of unequals" (Ely 1918, 72). Additionally, in the most popular general economics textbook of the interwar period, Ely writes, "The negro problem today, so far as it is an economics problem, arises largely from the ignorance and economic weakness of negroes and the exploitation to which their ignorance and weakness subject them…" (Ely et al. 1923, 59).[7]

His private correspondence provides additional insight. For instance, he carried on a friendly correspondence with Lothrop Stoddard who while little known now was a

[6] The socialist brother of economist Carl Menger.
[7] (Dorfman 1959, 4:211) puts the sales figure at 350,000.

prominent race scientist in the 1920s and the originator of the Nazi term *untermensch* (Nightingale 2012, 325, 466 fn 56).[8] In another letter, Ely declined an offer to join the American Eugenics Society but only because of "the burden of dues is becoming too heavy" and writes of being in "entire sympathy" with the "admirable society" (Ely 1927c).[9] On the same date, Ely wrote to Albert Jenks, a former student and professor at the University of Minnesota:

> you speak about the importance of heredity, and how hereditary groups of people often determine the degree of success in an undertaking. You are absolutely right about this, and I am often impressed with it myself, and feel that it must be brought forward in discussing land settlement and other problems with which we deal. (Ely 1927a) [10]

In a third letter on the same date, Ely writes to Paul Popenoe (an author of the *Applied Eugenics* (1918) released under Ely's MacMillan textbook series) asking if he will update the text with the latest eugenic science, remarking that "(y)ou are leading the procession, and I do not think you should give up your leadership" (Ely 1927b).[11] In a reply letter to Ely, Popenoe informs him of his compulsory sterilization effort with E.S. Gosney in California that would be a model for the 1933 Nazi sterilization law (Popenoe 1927). Ely continued to harbor racist and eugenicist belief during the relevant period.

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[8] He also cited a few papers by Stoddard in his *Outlines of Land Economics* (1922). Stoddard is best known for writing *The Rising Tide of Color Against White World-Supremacy* in 1920 and *The Revolt Against Civilization* in 1922. Readers of *The Great Gatsby* may remember Stoddard's book as the eugenicist tract mentioned by Tom Buchanan (Okrent 2019, 266). The book was foundational in the thought of Nazi race theorist Alfred Rosenberg who got the term *untermensch* from the translation of Stoddard's "under man".

[9] Ely is responding to a November 15 letter from Whitney which states that Ely's name had been proposed by Irving Fisher. On Fisher and eugenics, see (Cot 2005).

[10] Jenks was a prominent sociologist and anthropologist. His work on the Philippines was cited in *Applied Eugenics* (1918), a popular college textbook on the topic edited by Ely. During the late 1920s, eugenics was taught in over 70 percent of American colleges and universities (Spiro 2009, 168).

[11] Popenoe was a prominent eugenicist who at the time in 1927 was the editor of the *Journal of Heredity* and would work for the Human Betterment Foundation with prominent eugenics donor E.S. Gosney. For more on Popenoe, see (Ladd-Taylor 2001). Occidental College revoked Popenoe's honorary degree in 2019 (Dreier 2019).

1.2.3 The Social Theory of Property and the Purpose of Land Economics

While all this odious behavior seems far removed from Ely's economic thought, his economics and social thought were of one piece. Economic policies were to be crafted and judged on their social results. The basis of Ely's work in land economics is his social theory of property outlined in his *Property and Contract in their Relations to the Distribution of Wealth* (Ely 1914). That book was the culmination of Ely's years of thinking about the subject; he had expressed the ideas in it in his classrooms for decades and he considered it his most important work (Ely 1938, 270). The key to understanding Ely's thought is his social theory of property, which flows out of his beliefs explored in Section 2.1.

The social theory of property roots all logical and ethical justification for private property in its social value. In doing this, as in his other arguments against laissez-faire economics, Ely is opposing Anglo-American tradition. In his thinking, property is not pre-political right which government is to protect, but rather a right created by the State. More than this, in line with his other beliefs, there is a role for the State to decide what aspects of property are justified because of their social value. The State is not a referee but "an ethical person" in whom "control over our lives and our property rests" (Ely 1914, 1:249).

This conception of property rights imposes an obligation not just on private individuals to use their property to maximize social value and but also on the state to regulate the use of property where private individuals fail to live up to their social duty. Individuals effectively earn property rights by using them to bear fruit and states craft and alter property rights to improve outcomes.

Later texts, such as *Elements in Land Economics*, coauthored with his student and son-in-law Edward Morehouse would promote these ideas in more practical ways about how to judge the results of markets. They write, "the standard for testing whether or not a land policy is sound is: Does the policy result in the improvement of social living? Land economics is, therefore, a social science dealing with the human relationships arising out of land utilization" (Ely and Morehouse 1924, 10). Looking around them, they don't like what they see and think that "(i)n such a complex society as ours, social control of some forms of land utilization is necessary to achieve the social ends which are set before each individual." (Ely and Morehouse 1924, 23). Reforms like those which were emerging through private and public action offered a way to improve land utilization.

1.2.4 Race and Land Value

While the concepts of land utilization and the social theory of property sound inoffensive, these notions in Ely's academic work on land economics were used to justify a formal system of residential segregation. In *Outlines of Land Economics,* Ely and coauthors write, "Consider the effect on land values of the establishment of a negro school or negro church in a fine residential district in Washington, D.C for unfortunate as it may be, racial differences in residents are determining factors in making urban land values" (Ely, Wehrwein, and Shine 1922, 138).[12] A similar argument appears in his *Elements of Land Economics* textbook:

[12] The use of "unfortunate" provides additional insight in Ely's thinking as does his discussion of agricultural tenant farmers in "Tenancy in an Ideal System of Landownership" (Ely and Galpin 1919). There he writes, "Tenancy has a permanent place in an ideal system of ownership for large numbers in some places… The negroes of our South furnish an illustration. In some cases ownership of land by negroes leads to idleness, and in other places to wasteful culture… If we should set out to do the very best we could for them, calling into cooperation with us their wisest leader, I am inclined to think that at present

> We may as well take it for granted that certain racial and national groups will not intermix and intermarry, and will not even mingle socially in churches or in schools. In such cases the purchase of land by the lower standard groups is likely to mean that the upper standard group is pushed out. Where such a change is in progress, land values drop and the institutional life of the area is broken up (Ely and Morehouse 1924, 200–201) [13]

In short, Ely was able to identify an empirical relationship between race and home value. Regardless of cause, this basic empirical finding is important for understanding the interest of a broader set of policymakers, private developers, and citizens in pursuing segregation through both private action like racial deed restrictions (discussed in both Sections 3 and 4) and public actions like zoning (discussed in both Sections 3 and 4) (Jackson 1980; Bradford 1979).

1.3 Housing before the New Deal: Speculation, Community Builders, and Planning

> Partly [Ely] saw in the rapid growth of zoning and allied measures during the '20's a clear illustration of his basic idea that property rights are man-made and can be, in fact have to be, modified and redefined in light of human needs in an evolving economy (Woodbury 1949, 59)

The combination of the degradation of urban life and improved transportation (train, streetcar, automobile) led to wealthy and middle-class Americans moving to early suburbs in late 19th century and early 20th century—a trend that only continued until the recent resurgence of cities in the last few decades. Ely himself was a resident of one of

at least one-half of the negroes would thrive best as tenants under wise direction, and probably more than one-half, taking the country as a whole. If this is the case, then a good land policy for our Southern States should be directed very largely to the development of good tenancy and good landlordship. Kindly and wise direction of the lower strata by those whose economic, intellectual, and social development has reached a higher plane is something that cannot be dispensed with if this world is to be a decent place to live in." (Ely and Galpin 1919, 182). He concludes the section by writing "For negroes and any other similar group, we should always keep open a broad way to success and encourage landownership just as fast as individual fitness for landownership is shown. The folly of wholesale attempts at transformation by legislation should have been demonstrated for all time by the results of giving all the negroes the ballot at the close of the war-something far different from what Lincoln had desired"(Ely and Galpin 1919, 183).

[13] This textbook was one of the texts used to train realtors as explained more in Section 4.2.

these suburbs—University Heights— located near the University of Wisconsin and downtown Madison. Ely and his wife were among the early residents of the neighborhood. Like the nicer suburbs around the country, University Heights contained a mix of well-designed homes on sizable lots laid out on sweeping, sidewalk-lined streets. His Georgian revival house, designed by Chicago architect Charles Sumner Frost and finished in 1896, would be joined by pioneering houses by Frank Lloyd Wright and Louis Sullivan. Years later in the mid-1930s Ely's daughter Anna and her husband (and his student and coauthor) Edward Morehouse would even build an International Style house in the neighborhood.

While private developers of neighborhoods like University Heights were able to ensure that that the problems of the city would not follow residents, other less planned suburbs would often decline after being built. The wealthier residents would leave the neighborhoods when they began to turn, like many had done when similar things happened in the prosperous parts of the cities. There, well-built, large houses would be divided into apartments or torn down and replaced with denser structures as neighborhoods changed (Jackson 1985, 89–90) and similar would happen in declining suburbs (Fogelson 2005, 26–32). This phenomenon of declining neighborhoods worried residents, with an obvious interest in the value of their property, and social reformers alike.

While this chapter focuses on Richard T. Ely and the interwar years, the ideas and actions were informed by a longer history of private entrepreneurship, public regulation, and efforts of social reformers who advocated both. A comprehensive study of the changing political economy of housing is out of the question but some context is needed to understand why there was an interest in Ely's ideas and reform in general.

1.3.1 The Problems of the Cities and Suburbs

> The evil results of allowing a city to develop "naturally" is the best evidence of the need of social control of urban land utilization. The unregulated desire for profits from ownership of private property often leads to a short-sighted view. (Ely and Morehouse 1924, 86)

Over the 19th century cities filled as farmers fled the fields and the poor and huddled masses arrived from Europe. The industrial revolution and the pull of the cities led to mass urbanization and the rise of the urban poor. Social reformers, urban planners, and developers responded to these forces in different ways, but the trend was toward increased control. Muckrakers like Jacob Riis used photography to draw the attention of other social reformers and everyday citizens to the squalid conditions of the urban poor. Public health concerns stemming from the lack of sanitation, overcrowding, and pollution (with varying degrees of plausibility) gave cities the ability to regulate housing under their police powers. Beginning in 1867 and again over the next decades New York City progressively regulated tenements to include features such as fire escapes, light, ventilation, and running water. Height restrictions and other regulations would follow. Racism and xenophobia often played a role in these and other regulations even if they were not explicitly noted.[14]

This was not peculiar to the United States. The situation in London was similar. Outside of the posh streets of West London were huge tracts of the city marked by poverty, disease, and grim tenements captured in Charles Booth's colorful maps that resemble the later HOLC maps. Victorian social reformers began charitable settlement houses where

[14] Aside from the more widely known examples from New York were regulations targeted against Chinese immigrants on the Pacific coast. When explicitly racist rules imposed by San Francisco against Chinese residents were thrown out, they were replaced by facially neutral laws targeting laundries (D. E. Bernstein 1999).

people of means and ability could reside among the urban poor and provide social services. Similar settlement houses were set up in the United States most famously by Chicagoan Jane Addams with whom Ely was friendly. These efforts along with model tenements and charitable enterprises were attempts to improve the cities by improving housing conditions. The fear that the dreadful environment led to poor outcomes was balanced by the related hope that improved environments could banish the social ills.

Enabled by improved transportation technology, later efforts shifted from improving existing areas to creating new ones free from the urban problems. The transition can be seen in the philanthropic efforts of Londoners Henrietta and Samuel Barnett who funded and were intimately involved in the settlement movement through Toynbee Hall and who later supported the garden city movement a forerunner of later suburban thinking through Hampstead Garden Suburb. Early American suburbs inspired by the garden city movement include Forest Hills Gardens in Queens. While the utopian ends of the garden city movement would fade, the urbanism of many future developments would be influenced by these developments that, "featured short, often curving streets, a clear division between major thoroughfares and secondary streets, an emphasis on open space, and large blocks closed to vehicular traffic" (Radford 1996, 32).

1.3.2 From "Short-Sighted View" to Community Builders

> Chicago was then in the throes of a building boom and a fever of subdividing activity that ranged from widespread land butchery to occasional city building. (Woodbury 1949, 60)

Through the late nineteenth century, an overwhelming majority of the land development in the United States was by small, speculative builders. There were relatively

few restrictions and builders would often buy lots and build one or a few houses at a time. As such, "[a]ll but three of the country's twenty-eight largest cities increased their supply of dwellings by at least 50 percent from 1880 to 1900" (Radford 1996, 7). Both social reformers and larger developers sought to leave this behind. Social reformers viewed the speculation as distasteful and disliked the results of the system; developers saw a profit opportunity at the higher end of the housing market.

For both, deed restrictions, or protective covenants, offered a way to ensure the stability of future neighborhoods (Brady 2021; Glotzer 2020; Brooks 2013; Fogelson 2005). They allowed private developers of suburban neighborhoods to internalize externalities: homeowners' rights were limited from the outset with the intention of preventing undesirable actions by neighbors[15]. The voluntary nature of the contract meant that a huge number of restrictions were possible that were not available through public means at the time. Developers could offer idyllic houses set on curvilinear streets and potential buyers had the knowledge that the neighborhood would change little or continue to develop along the same lines as what they were promised. For those with custom houses, developers would lay out neighborhoods and restrict buyers to certain architectural styles, sizes of homes (both minimum and maximums often), setbacks from the street, and the like (Fogelson 2005). Many of the land use regulations that would ultimately be issued by public means were initially crafted by developers.

[15] To see more on why tort law and/or nuisance law alone were not enough for property owners and they turned to covenants against nuisances, see (Brady 2021).

1.3.3 Rise of Zoning

Comprehensive city-wide zoning, or the regulation by geographic area governing both type of use (e.g., commercial, industrial, residential) and density, in the United States began in New York in 1916, but it would quickly spread throughout the country. Earlier polices of zoning like those discussed in the next section and others had adopted piecemeal zoning or zoning that was far less comprehensive, but it was not until 1916 that zoning would begin in earnest.

The rise of zoning in every major American city except Houston is due in part to efforts by the federal government. Municipalities issue zoning laws under their police powers as creatures of their state governments, but beginning under the Harding administration, Secretary of Commerce Herbert Hoover took efforts to promote zoning. Hoover had a personal interest in the topic and housing more generally. Through the State Standard Zoning Enabling Act (SZEA) drafted by a committee of leading planners and reformers, the Commerce Department provided a model law for states to adopt zoning more easily (Knack, Meck, and Stollman 1996)**.** There were concerns about the inevitable legal challenges to zoning and the well-crafted model law helped result in legally defensible, easily adoptable, zoning. *Euclid vs. Ambler Realty* (1926) would uphold the legality of comprehensive zoning.

1.3.4 Racial Segregation: Public and Private

Explicit racial zoning ordinances began in Baltimore in 1910 and spread to many other localities until the U.S. Supreme Court Case, *Buchanan v. Warley* (1917). The case, stemming from a dispute in Louisville, Kentucky, ended with the Court ruling against the

policy on freedom of contract grounds. After the ruling, a variety of alternative tactics were developed to achieve residential segregation on legally defensible grounds. From 1917 until 1948, when the Supreme Court ruled that racial restrictive covenants were unenforceable, these were an obvious solution.[16]

While deed restrictions would often include limitations to the alteration of aesthetic attributes of the property, they also would also include limits on the attributes of owners and tenants. This private form of land use planning orchestrated by developers often included explicit racial covenants which prevented the sale of houses to people of unfavored backgrounds. Bombastic developer E.G. Lewis who was behind Palos Verdes Estates south of Los Angeles described residents as "the cream of the manhood and womanhood of the greatest nation that has ever lived, the greatest race that has ever lived, the Caucasian race and the American nation" (Fogelson 2005, 15). The details varied, but among those often prevented from purchasing or renting homes were blacks, Jews, Chinese, and southern Europeans (domestic workers were often explicitly excluded from restrictions). While the restrictions were initially recorded by the developers who themselves used racial characteristics as a screen for buyers, they bound the initial owner from making sales and they would continue to bind subsequent owners with various legal tactics to ensure they were long-lived restrictions.[17]

[16] Richard Brooks (2011; 2013) argues that while racially restrictive covenants had reduced efficacy after 1948, they still perpetuated racial segregation because of their extralegal signaling to buyers, realtors, and other interested parties.

[17] While eventually declared unconstitutional many of these restrictions still exist and are difficult to remove.

Even when neighborhoods did not have explicit deed restrictions preventing rental or sale to minorities, realtors and developers often engaged in steering practices. For instance, the neighborhood in New York, Sunnyside, where Ely would later move after being involved with the project didn't explicitly exclude minorities by deed but Catholics and Jews among other minorities were often prevented from buying despite the fact that the designer Clarence Stein was himself Jewish (Hampson 2020).

Where these restrictions were not explicit, developers could use discretion to allow those who would otherwise be excluded to buy into the neighborhood. In Roland Park, Baltimore, for example, George Boas, a philosopher at Johns Hopkins, could move into the neighborhood in an exception to the developer's policy of exclusion. This only was allowed after the sales manager reached out to his provost. On receiving information that Boas didn't attend synagogue and socialized with non-Jews the sales manager allowed Boas and his wife to purchase a home (Glotzer 2020, 132–33).

1.4 Ely and the Institute for Research in Land Economics

In addition to his earlier work and influence during the Progressive Era, Ely continued to be an important figure in the interwar period. An elder statesman of the economic field and an institution builder, Ely influenced both private enterprise and public policy. Beginning in the 1920s he had significant relationship with real estate professionals, developers, and government officials dealing with housing. I emphasize his promotion of planning and control generally and the racial implications of this control. More important than Ely's own direct influence in these efforts is the group assembled under the aegis of Ely's Institute.

1.4.1 "Under All, The Land"

In 1920, while still at the University of Wisconsin, Ely founded the Institute for Research in Land Economics and Public Utilities. Urban land economics was just one division of the enterprising organization.[18] What was the purpose of the Institute? Ely writes in his autobiography that one objective was, "the securing of intelligent planning by governmental units and by private interests which will make possible satisfactory living conditions and efficient economic life for the growing numbers of city dwellers" (1938, 240). The institute played an important role in the development of the pioneering academic program in real estate at Wisconsin (Weiss 2000; Nourse 1995). Beginning in 1925, the institute began publishing *The Journal of Land and Public Utility Economics* with Ely serving as editor. [19]

Controversy about the funding of the IRLE would lead to Ely leaving the University of Wisconsin for Northwestern in 1925. The controversy sprang from Ely being funded by the parties who would directly benefit from the organization's research, namely large land holders, railroads, real estate groups, mortgage bankers, and private utilities. Ely explicitly fundraised on their fears of a single-tax and Bolshevism (Rader 1966, 209). He did so mainly in direct appeals to donors, but also in calls for further planning. For instance, Ely writes:

> The buying, selling and improving of land, including the construction of dwellings, must become one of the great functions of the modern state… This is necessary as a means of preserving ownership as a basis of good citizenship and warding off that

[18] In addition to the focus of this chapter, IRLE devoted attention to natural resource economics and agricultural economics, public utility economics, and state/local taxation.
[19] The journal was later renamed *Land Economics*.

> dangerous radicalism which in the modern form of Bolshevism always attacks, first of all, the private ownership of land (Ely 1920, 149)

These appeals and the close relationship between the Institute and landed interests led to Ely being run out of Wisconsin by the supporters of the single-tax —and his former ally Senator Robert La Follette, who pilloried him with charges of corruption in the popular press (Rader 1966, 210–11).[20] Just two months after Ely's departure, the Board of Regents adopted a resolution barring the type of funding on which the IRLE relied (ibid., 210–12).

1.4.2 National Association of Real Estate Boards (NAREB)

One reason that Ely and the institute attracted the ire of the single-tax advocates was the fact that the organization relied on partnering with others to influence policy and securing funding. While much of the funding came from those in control of natural resources, for the purposes of this chapter, the most important organization with which Ely directly worked was the National Association of Real Estate Boards (NAREB).[21] It was private group, but this fact can be somewhat misleading: the standards it adopted were enforced by state regulations (at the instigation of the organization), which required all real estate transactions to be brokered by a licensed realtor.

From the outset, Ely sought to tie his institute to the organization. He argued that he could provide the academic rigor needed for the organization to professionalize their trade. In addition to raising much-needed funds for the Institute, the partnership would give

[20] There was a personal level to the dispute as Ely pushed to have La Follette expelled from the U.S. Senate during the war because of his lack interest in fighting Germany.

[21] The forerunner to the National Association of Realtors, the National Association of Real Estate Boards was instrumental in residential segregation. The organization was originally founded in 1908 as the National Association of Real Estate Exchanges. In 1916, the organization's name was changed to the National Association of Real Estate Boards (Hornstein 2005).

Ely the ability to craft an important profession in his image. While members of NAREB had a variety of beliefs, "in Ely's mind, any program of education for real estate professionals had to begin with the social theory of property, since real estate brokers were in effect the executors of American land policy" (Hornstein 2005, 87). It took time for Ely to convince the organization of his value, but eventually in November 1921, he managed to become an official "adviser for Research and Education" and make his institute the official "reference organization" (Hornstein 2005, 93). IRLE and NAREB would become increasingly connected over the decade.

1.4.3 Educating Realtors

> The general welfare of society depends so much upon the men in the real estate business through whom, in the main, sales and purchases take place (Ely 1925)

One of the most important features of the relationship between Ely's institute and the realtors was that Ely and his colleagues would write the textbooks which would form a Macmillian series and become the core of a standardized training program for the thousands who joined the profession.[22] Generations of realtors were trained with Ely's series of textbooks extolling his social theory of property and learning about their role in bettering the world. Building on this foundation realtors would learn from important figures in the field, and associates of Ely, like Helen Monchow, Fredrick M. Babcock, and Nathan William MacChesney.

[22] This paragraph draws on (Hornstein 2005). The YMCA also played a role in the distribution of the textbooks and education of the lay audience.

Helen Monchow was a graduate of Mount Holyoke College and student in the graduate program at Northwestern University. She was affiliated with the institute (eventually serving as the managing editor of the journal) and published various influential works in the 1920s and 1930s. The most important of these was *The Use of Deed Restrictions in Subdivision Development* (1928) which details their legal framework, rationale, and use by private developers as described in Section 3.2.

Frederick M. Babcock was a prominent Chicago appraiser who wrote the textbook on the subject for Ely's series.[23] While Babcock is foundational figure in the field of real estate appraisal, for the purpose of this chapter, Babcock's text is notable because it emphasized the role of race in the appraisal of property. "Among the traits and characteristics of people which influence land values, racial heritage and tendencies seem to be of paramount importance," Babcock writes, "the aspirations, energies, and abilities of various groups in the composition of the population will determine the extent to which they develop the potential value of the land" (1932, 86). In part because of this, he pointed to changing racial composition as one characteristic which can dramatically change the value of property. In a later textbook, he writes:

> most of the variations and differences between people are slight and value declines are, as a result, gradual. But there is one difference in people, namely race, which can result in a very rapid decline. Usually such declines can be partially avoided by segregation and this device has always been in common usage in the South where white and negro populations have been separated (Babcock 1932, 91).

[23] *The Appraisal of Real Estate* (Babcock 1924). He would later work for the Federal Housing Administration, as I will discuss in Section 3.4. (Ramsey 2004) examines the legacy of institutional economics in the field of real estate appraisal.

These findings had obvious implications when paired with the social theory of property or just the pecuniary interest of the resident.

Nathan William MacChesney was among many other things, the chief counsel for NAREB. It was MacChesney, a wealthy Chicago lawyer and trustee of Northwestern University who was pivotal in the move from Wisconsin to Illinois (Nightingale 2012, 322). Politically active, MacChesney was a progressive Republican who, "wrote a eugenical tract advocating sterilization programs for the mentally ill and for prisoners. He even ominously hinted that similar programs might one day be appropriate for blacks" (Nightingale 2012, 325).

MacChesney also authored a document titled, "Standard Form, Restrictive Covenant." In the shadow of *Buchanan v. Warley*, MacChesney crafted a document which would allow residents (and their realtors) to attach a racial covenant to their property which would hold up in court (Nightingale 2012). Rather than go through the effort (and cost) of drawing up their own documents, residents could simply file out the standard form. Perhaps more importantly, these innovations allowed the racial covenants and deed restrictions enacted by private developers of new subdivisions to spread to existing neighborhoods.

1.4.4 Real estate law

> A Realtor should never be instrumental in introducing into a neighborhood… members of any race or nationality… whose presence will clearly be detrimental to property values in that neighborhood (Article 34, Realtor Code of Ethics, 1924)[24]

[24] This article was present in the Code of Ethics until 1950.

Since they were de facto practitioners of policy in the social interest, there was a moral justification for them to exclude those who refused to live up to the standards. MacChesney "…drafted a model real estate licensing act (one eventually adopted by thirty-two states) that permitted state commissions to revoke the license of any agent who violated the NAREB code—and the failure to discriminate on racial grounds now constituted a breach of professional ethics" (Hirsch 1993, 75). In addition to any ideological belief in the social theory of property or racist beliefs, realtors were now directly incentivized to engage in racial segregation: if they allowed racial integration they would be in violation of their professional code of ethics and stood to lose their legal ability to practice in their profession.

1.4.5 Staffing the federal agencies

> No agency of the United States government has had a more pervasive and powerful impact on the American people over the past half-century than the Federal Housing Administration (Jackson 1985, 203).

Before the First World War, the federal government had little influence in housing regulation, provision, or financing.[25] In the interwar years this began to change—at first largely through the Commerce Department led by Herbert Hoover, and later in various efforts to deal with the Great Depression. Ely and figures associated with the institute were important contributors to Hoover's efforts during the 1920's and 1930's (Weiss 2000, 325–26). Perhaps most notably, the National Housing Act of 1934 created the Federal Housing Administration (FHA), an agency which primarily insures residential mortgages. The FHA

[25] Regulation of the District of Columbia and housing for those affiliated with the federal government through the First World War era United States Housing Corporation are obvious exceptions.

agrees to insure mortgages which are compliant with its underwriter's manual. Those mortgages which are FHA insured are subsidized and the borrowers face better terms and longer periods of repayment than those that are not.

With the creation of the FHA shortly following Ely's retirement, many of the figures who formed the core of the IRLE went to work in Washington. The ideas developed, published, and communicated by the Institute would find their way into official policy. Ernest Fisher, who was an Ely student and part of the Institute, became director of the Economics and Statistics Division of the FHA (Hornstein 2005, 134). Shortly after the 1934 bill passed, Babcock would become the agency's chief appraiser. (Nightingale 2012, 345). In this role, Babcock introduced racial segregation as an "official requirement of the federal mortgage insurance program" (Rothstein 2017, 65). The official *Underwriting Manual* (1938) would include a passage on the connection between race between land values:

> Among the traits and characteristics of people which influence land values, racial heritage and tendencies seem to be of paramount importance. The aspirations, energies, and abilities of various groups in the composition of the population will determine the extent to which they develop the potential value of the land ("Underwriting Manual" 1938, sec. 937)

Using the manual as justification, FHA officials would encourage or even require builders of housing tracts and buyers of individual homes to record deed restrictions and support local zoning measures in order to qualify for taxpayer subsidized loans (Rothstein 2017, 84–85).

1.5 Conclusion

Richard T. Ely, his academic research institute, and his students and colleagues played a significant role in the study of housing markets and early regulation by the federal

government. One important aspect of this research and policy making was the promotion of racist policies that promoted residential segregation through both private organizations, like the National Association of Real Estate Boards, and ultimately the federal government, including the Federal Housing Administration.[26] Many more individuals associated with Ely took prominent positions within the burgeoning bureaucracy as the national government took a more active role in residential markets (Weiss 1989).[27] It is notable that the increased role of the national government did not weaken the local restrictions on the ability of individuals to freely associate, rather it contributed to the problem. In his *Forbidden Neighbors: A Study of Prejudice in Housing*, Charles Abrams writes:

> A government offering such bounty to builders and lenders could have required compliance with a nondiscrimination policy. Or the agency could at least have pursued a course of evasion, or hidden behind the screen of local autonomy. Instead, FHA adopted a racial policy that could well have been culled from the Nuremberg laws. From its inception FHA set itself up as the protector of the all white neighborhood (1955, 229–35)

In a bit of historical irony, the final Richard T. Ely lecture was given in January 2020 by Marianne Bertrand: the chair of the American Economic Association Standing Committee on Equity, Diversity, and Professional Conduct.

[26] I must stress that these are in no way the only sources of residential segregation. A wide array of institutional mechanisms within markets and policies adopted at lower levels of government restricted access to housing markets on racial grounds. At national level, however, many of the ideas and individuals associated with housing policy, including segregationist policy, came from Ely's institute.

[27] I have most notably omitted the importance of HOLC mapping and redlining. The desire to move white families out of cities and into domestic suburban life for a variety of reasons including notions of citizenship and the idea that holding property would prevent individuals from becoming communists is another important motivation for policy.

CHAPTER TWO - THE REAL PURPOSE OF THE PROGRAM: A CASE STUDY IN JAMES M. BUCHANAN'S EFFORTS AT ACADEMIC ENTREPRENEURSHIP TO "SAVE THE BOOKS" IN ECONOMICS

2.1 Introduction

James M. Buchanan (1919-2013) was an academic pioneer in the field of public economics. As opposed to merely studying strategic interaction within a given set of rules, Buchanan developed an economic approach to normal politics *and* rules-level analysis. Central to Buchanan's project were both his hard-nosed insistence of behavioral symmetry between market and political actors, and his focus on the institutional framework within which market and political processes play out. Those two methodological features would have produced novel and interesting insights in isolation, but it was Buchanan's blending of them that resulted in twin intellectual revolutions: public choice and constitutional economics. For his pioneering work, Buchanan was awarded the highest individual honor of scientific achievement in our discipline –The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel in 1986 "for his development of the contractual and constitutional bases for the theory of economic and political decision-making".[28]

Standing in the wake of a successful revolution, one fails to appreciate the extent of its divergence from the received view. But Buchanan was swimming against the methodological, analytical, and social philosophical tides of his times. Notably, he also offered his opposition to the hegemonic paradigm while working outside the elite institutions of higher education. While those scholars slightly older than him, such as Paul

[28] See https://www.nobelprize.org/prizes/economic-sciences/1986/summary/ for the citation.

Samuelson and Milton Friedman, spearheaded the transformation of economics in the post-WWII era from the commanding heights of the Massachusetts Institute of Technology and the University of Chicago, Buchanan taught at universities in the American South. While at the University of Virginia (UVA), Buchanan would use that separation to stress to members of the university administration that they had to "dare to be different". As he explained, association with UVA did not signal automatically to others membership among the academic elite, but it also didn't signal automatically an academic wasteland, so that it was up to them through their bold decisions and creative work to confer an impression of the quality of the university on external observers (Buchanan 1962). Buchanan did just that at UVA from 1956 through 1968. Owing to Buchanan's productivity, the research team he recruited, and the graduate students working there, the economics department rose to become one of the most elite research and graduate education programs in the United States in the 1966 report of the American Council of Education on assessment and ranking (Cartter 1966).

In this essay, we reconstruct Buchanan's view of his project with the aid of archival material and first-person accounts. In doing so, we explain why Buchanan thought it necessary, from the very beginning of his career, to strike out in such a bold direction. In the process we hope to yield insights into the broader career of academic entrepreneurship that undergirded Buchanan's project until his death. Because Buchanan has been the subject of polemical treatment in recent years, most notably by Nancy MacLean's (2017)

Democracy in Chains,[29] we will rely on archival material and first-person accounts of Buchanan and others who lived through the UVA years (and some like Richard Wagner who were present not only then but for later iterations of Buchanan's project as well). Given MacLean's narrative about Buchanan's intellectual project (our title "The Real Purpose of the Program" comes from chapter 3 of her book), it is important to establish as clearly as possible that Buchanan saw no connection between his scientific and scholarly project and direct political activism. Let us quote Buchanan from his personal reflections on the development of the Virginia School of Political Economy: "I do not ever recall consciously or unconsciously putting myself in the role of proffering advice to government, that stance that has characterized political economists, then and now, despite Wicksell's early admonition. Government, or politics, was, to me, always something to seek protection from, not something to exploit, either for my own ends or those that I might define for the public at large." (Buchanan 2001, p. 54). Buchanan's thinking about how economists usefully can be involved in the political process represents a radical departure from the 20th century practice pioneered by contemporary progressive intellectuals working under the triple assumptions of utilitarianism, social engineering, and elite control.[30] What is Buchanan getting at?

[29] See Boettke (2019) for direct treatment of MacLean's book and documentation of the program's explicit intent and the strategy pursued to achieve its goals during the UVA period. The title of the review essay, "The Allure and Tragedy of Ideological Blinders Left, Right and Center", provides insights into the main thrust of the argument, namely that MacLean's book is a tragic missed opportunity for genuine scholarly dialogue on fundamental issues in political economy and social philosophy.

[30] Contrast Buchanan's point of view with that of 20th century economists such as A. C. Pigou, J. M. Keynes, Paul Samuelson, Richard Musgrave and, more recently, Esther Duflo (2017). As Buchanan writes in a letter to Mancur Olson, "mainstream economists conceive themselves to be members of an 'establishment elite' who somehow have a divine right to advise whatever governments may exist toward doing the things that this elite knows is really 'good' for society at large" (Levy and Peart 2020, p. 20; Buchanan 1971). The

The Wicksellian admonition simply is that economists must cease offering advice to government as if the relevant decision makers were benevolent despots. Buchanan would repeat that admonition throughout his lectures and writings for more than 50 years, and he stressed it explicitly even in his Nobel lecture. Its importance as a bedrock principle in Buchanan's thought should be evident to anyone who has read him in any serious way. If one wants truly to understand Buchanan's political economy, then his 1959 paper "Positive Economics, Welfare Economics, and Political Economy" should be a focal point for departure. Economists, he argues, sit in no special privileged position in democratic political discourse, and therefore must limit their policy proposals to those changes in the structural rules of the game that they envision as producing Pareto improvements. Rather than simply being imposed by experts, democracy requires that such proposals be treated as little more than hypotheses subject to the test of the democratic process of collective decision making and, moreover, the determining criterion is agreement among the participants.

Buchanan's rather complicated relationship with direct political engagement by economists in the political process – as opposed to economists understanding the political process – can only truly be understood if one appreciates fully his deep commitment to democracy as discussion, which he inherited from Frank Knight, and his obsession with the possibilities of political externalities, which he inherited from Knut Wicksell. As Richard Wagner (2017), who spent 50 years in close collaboration with Buchanan, first as

economists adopting the alternative perspective are engineers and their purpose is to fix social problems. Also see Greg Mankiw's discussion of the different conceptions of the economist (Mankiw 2006).

a student and then as a colleague and co-author, relays in *James M. Buchanan and Liberal Political Economy*, that unique approach often caught enthusiastic graduate students off guard until they came to understood the point being stressed and its full implications.

As Wagner (2017, 178-179) recalls, he spent the summer before attending the University of Virginia reading as much public finance as he possibly could absorb and he overloaded in his classes his first year so that he could take Buchanan's course in public finance usually reserved for second-year Ph.D. students. Prior to enrolling in that class, Wagner had little sense of the deep commitments that permeated Buchanan's approach taken from Knight and Wicksell. With a summer of serious reading behind him, Wagner thought that he was ready for a question from the professor. So, when Buchanan asked him on the first day of class a very specific question about current public policy and public economics, he was startled by the response he received to his answer. "Mr. Wagner, you have no business providing that answer, we are democrats here not autocrats" (Wagner 2017, p. 178). Like his mentor Frank Knight, Buchanan was a radical democrat in his approach to understanding the "good society". Buchanan, the Knightian, understood that economists had no privileged position in democratic discourse. Buchanan, the Wicksellian, understood that the age-old conundrum when choosing in groups endured – how can individuals remain free if they are subject to wills other than their own, yet choose in groups in order for society to operate? Procedures had to be built within the democratic process of collective decision making to defend the rights of the minority from abuse by the majority. David Levy and Sandra Peart (2020) aptly have characterized Buchanan's project as a quest for a science and a practice of an economics of natural equals. Democracy works precisely

to the extent that permanent winning coalitions are prevented from running roughshod over the rights of others. And, that obstacle had serious implications for technical public economics and public finance.

Pursuing the implications of that line of argument required breaking from the prevailing orthodoxy. To Buchanan and his colleagues, the developments in economics since the 1930s seemed to be evading, rather than addressing the challenges of classical political economy. As such, offering an effective argument against command and control scientism[31] would require engagement with both the science of economics and the art of political economy. That is, it would require a blending of the technical training in modern economics, namely price theory, with reconnecting economics to philosophy, both at the methodological and social philosophical levels. Finally, it would require academic entrepreneurship to establish, administer and sustain a research program. Those features, "The Real Purpose of the Program", defined Buchanan's life project from the UVA years to his death in 2013.

2.2 The Transformation from Political Economy to Economics (1890-1950)

It is debatable whether Adam Smith's fifth book of *The Wealth of Nations* (1976 [1776]) is an example of the political economist offering direct advice to the statesman about how to manage the commercial affairs of the society. We can assert safely, however, that a meaningful difference can be found between what Smith was doing and what Pigou (1920) was doing in *The Economics of Welfare*. Even more distance exists between Smith

[31] Hayek applied the term scientism to connote the unwarranted adoption of the methods of the natural sciences to the practice of the human sciences, such as political economy. Hayek elaborated his critique in his *The Counter-Revolution of Science* (1952) and also later in his Nobel Lecture "The Pretense of Knowledge" (1974). See https://www.nobelprize.org/prizes/economic-sciences/1974/hayek/biographical/

and Samuelson (1947). The practice of political economy transformed from a branch of moral philosophy into a genuine science of society *in the mind of the economist.* What changed?

Economists wanted desperately to be viewed as scientists, not as practitioners of a branch of philosophy. That desperation was born of the emerging academic positioning in the late 19th century. Scholars in the social and policy sciences were excited by the model of the natural sciences. In the two centuries between Smith and Marshall, the wonders of pure science and the amazing machines produced by applied science were seen to have conquered and controlled nature. Economists hoped that once reconstructed scientifically, the discipline of economics could conquer and control the social world just as physics and engineering seemed to do in the natural world. Economics would soon become its own stand-alone department, with its own practitioners, scientific enterprise, and specialized journals. Economics was to become a scientific profession. Because of his elite position at Cambridge, Alfred Marshall's influence on the profession during the early years must be stressed.[32]

The timing of the professionalization of economics coincided with a transformation of public administration in the western democracies into a professionalized bureaucracy. Economics was to become a scientific profession; Marshall and then Pigou promised that the new economic science would bear fruit. In that view, economics was an input into

[32] His influence has been discussed at length in the history of economics literature, e.g., Coats (1967) and Kumekawa (2017). Marshall was able to use his status to control positions in the UK academy for his former students. In the English-speaking world, Marshall was able to "corner the market" for academic economics, so to speak, from 1900 to the 1930s, only to be supplanted over the next 50 years by Keynes and the Keynesians, especially under the hegemonic influence of Paul Samuelson between 1950 and 1975.

technocratic public administration that would generate wealth and prosperity by addressing the social ills of poverty, ignorance, and squalor (Boettke 2017; Kumekawa 2017).

That break from the way political economy traditionally was done, from Smith to J. S. Mill to Frank Knight, and to the way it was to be done from Pigou to J. M. Keynes to Paul Samuelson, had a major impact on the way economists were trained and the conception economists themselves had of their role.[33] The transformation of economics during the first half of the 20th century often is forgotten in discussions of Buchanan and his project. It cannot be forgotten, however, if one wants to understand what Buchanan saw as his professional task. As he put it:

> Virginia Political Economy was born in the foyer of the Social Science Building at the University of Chicago early in 1948. In a casual conversation with a fellow graduate student, Warren Nutter, I discovered that we shared an evaluation and diagnosis of developments in economics, the discipline with which we were about to become associated as licensed practitioners. We sensed that economics had shifted, and was shifting, away from its classical foundations as a component of a comprehensive moral philosophy, and that technique was replacing substance. We concurred in the view that *some deliberately organized renewal of the classical emphasis was a project worthy of dreams*. (Buchanan 2001, 51; emphasis added)

Almost a decade later, Buchanan and Nutter found themselves serendipitously in a position to act on that earlier conversation after being hired simultaneously at UVA. During the decade between Hyde Park and Charlottesville, both men had become significant technical contributors to the discipline, while also voicing their criticisms of the emerging scientific consensus in their respective fields of inquiry, Nutter from his position at Yale University

[33] The progressive transformation of public administration and economics has been a subject of inquiry in the work of Vincent Ostrom (2008 [1973]). In addition, see Aligica, Boettke and Tarko (2019). The link between public administration and economic science also is discussed in Boettke (2018a). This progressive transformation of public administration and economics became a major influence on Hayek's own professional arc (Boettke 2018b).

and Buchanan, first, from his position at the University of Tennessee and then at Florida State University.[34] But now they joined forces at the University of Virginia. That period likewise was one of transition for the Department of Economics at UVA owing to structural changes at the university associated with the McIntire School of Commerce, following faculty resignations and relocations. Buchanan and Nutter's shared project was helped by the presence of Rutledge Vining, a former student of Knight, who had been appointed to UVA's faculty before Buchanan and Nutter arrived on campus, and who himself was quite critical of the prevailing orthodoxy.[35]

As Tipton Snavely (1967)[36] writes in his *The Department of Economics at the University of Virginia, 1825-1956*, James Buchanan was recruited to become chair of the economics department in 1956-1957, and Warren Nutter moved from Yale to UVA as an associate professor. Both men, Snavely points out, were University of Chicago Ph.D.s with high professional standing. "These men", he states clearly, "took over leadership in the Department and have pressed forward with fresh ideas and determined purpose toward a higher plateau of achievement in economic science" (Snavely 1967, 181). As stressed in

[34] Buchanan was under an obligation to return and teach in the South upon completion of his doctoral studies at the University of Chicago from 1946 to 1949, as a condition of some of the funding he received for his graduate education.

[35] Buchanan, upon learning that the existing faculty at UVA also was recruiting Nutter, wrote to him on 23 January 1956 to encourage him to join the faculty, stating, "I think that Virginia has much to recommend it, although, of course I know nothing of the innerworkings of either the department or the university. I know Rutledge Vining is a good man, and there are several sharp younger fellows. They have a reasonably good-sized graduate program.... Two of the professors, Snavely and Hyde, have only a year or two left before retirement. This should provide a good basis for getting the sort of department we should like to work with" (Buchanan 1956c).

[36] An unusual family connection exists between Buchanan's project and the Snavelys: Tipton Snavely once was chair of the Economics Department at UVA (to this day, the Best Dissertation Award in Economics at UVA is named after him) and his son William Snavely was chair of the Economics Department at George Mason University (to this day, the department's Most Outstanding Graduate Student award is named after him). The Snavelys played a significant role in creating opportunities for Buchanan's research and educational vision in the Commonwealth of Virginia.

several memos to the university administration, Buchanan writes about how the Department of Economics at UVA reached heights of professional recognition that were unfathomable only years earlier.

With the added benefit of hindsight, we can see the strength of the research group that Buchanan and Nutter assembled at the Thomas Jefferson Center for Studies in Political Economy (TJC) and the Department of Economics: not only would Buchanan go on to win the Nobel Prize, but so did Ronald Coase, who was at the TJC and UVA from 1958 to 1964.[37] Gordon Tullock,[38] at UVA from 1958 to 1959, and 1962 to 1967, would go on to be named a Distinguished Fellow by the American Economic Association. Furthermore, the early 1960s' work of Warren Nutter, who passed away from cancer at a young age, would be praised for challenging the consensus on Soviet industrial growth (Nutter 1962; Levy and Peart 2015). Leland Yeager's (at UVA from 1957 to 1986) work, critical of the Keynesian system, would be viewed as prescient after the breakdown of the professional macroeconomic consensus in the 1970s (Yeager 1997; Koppl, 2006).

While he was at the University of Chicago studying for his Ph.D. from 1946 to 1949, Buchanan's worldview underwent a radical transformation from a sort of libertarian socialist to a classical liberal political economist who now possessed a keen appreciation and understanding of the functioning of the price system, along with the legal and political infrastructure within which a functioning market economy must operate (Buchanan 1999,

[37] Ronald Coase won the Nobel Prize in 1991 "for his discovery and clarification of the significance of transaction costs and property rights for the institutional structure and functioning of the economy." See https://www.nobelprize.org/prizes/economic-sciences/1991/coase/facts/

[38] Tullock first was a postdoctoral fellow at TJC and then was brought back to the Department of Economics as an associate professor.

14). That transformation can be credited to the impact of Frank Knight and his other teachers at Chicago, including a young Milton Friedman.

Friedman's prolific research program, and his rising standing in the profession, thrust him into a leadership role at the head of one of the department's factions (Reder 1982). Friedman, along with George Stigler (who joined Friedman at Chicago a decade later) and Allen Wallis, rejected the prevailing imperfect and monopolistic competition models of microeconomics and the emergence of Keynesianism in theory and in practice. Instead they embraced economics as a positive empirical science, not as a tool for improving public policy. That gearshift created a sense of shared purpose and identity – what it meant to be a Chicago Economist.[39]

While Reder (1982, 35) goes to great pains to stress that Friedman and the old Knightian students at Chicago recruited newcomers based on outstanding talent, and that the culture of Chicago economics was one of rigorous argument and not ideological affinity, he does paint Friedman and Stigler into a corner of "providing a rationale for political conservativism." The critical aspect from the point of view of the present chapter, however, is that all the challenges emanating from Chicago against the orthodoxy fundamentally were critiques of the progressive vision of economic policy and expert-led governance. While Friedman is the figure identified most often with the counter-revolution

[39] In *Public Finance and Public Choice*, Buchanan highlights a distinctive aspect of the education of economists at Chicago versus elsewhere, such as MIT or Harvard. "One characteristic feature of graduate training in Chicago, then as well as now, warrants mention here. The Chicago economist does not project an image of becoming an adviser to governments, thereby proffering advice on how to manage national economies, in the large or in the small. The Chicago economist learns how economies work rather than how economies might be controlled. Of course[,] this generalization has its notable exceptions, but the contrast in professional attitudes in this respect between Chicago, and, say, Harvard, maybe critical in influencing both career and research paths" (Buchanan and Musgrave 1999, pp. 16-17).

in economics during that period, he was building on a foundational economics-based critique of progressivism in developed by Frank Knight (see Knight 1940, 1951), although the two certainly had methodological, analytical, and philosophical differences.[40]

Buchanan, a student of Knight, and Nutter, a student of Friedman, both shared Knight's condemnation of the direction of modern economics.[41] Buchanan and Nutter clearly were convinced, as both Knight and Friedman were, by the power of price theory. They also emphasized, however, a lesson stressed more by Knight than by Friedman: the fundamental importance of political and legal infrastructure in understanding the operation of market economies and free societies. Economic life does not exist in a vacuum and economic logic thus must be interwoven with an understanding of the political process, the role of law, and social beliefs, values and customs. To use a contemporary phrase, they recognized that commercial life is *embedded* in a broader social framework that must be accounted for in any serious study of economic systems.[42] Unlike Friedman, both Buchanan and Nutter sought to continue Knight's failed effort to develop a theory of neoclassical institutionalism, which contrasted with both the historical institutionalism (of the Veblen-Ayers variety) and neoclassical formalism (of the Samuelson-Bator-Bergson or later Arrow-Hahn-Debreu variety).[43] Starting with a 1948 conversation in in the foyer

[40] Knight, as well as Ludwig von Mises and F. A. Hayek, warned about the problems caused in the social sciences by "scientism".

[41] While committed more or less to the Knight program, Nutter was drawn more to the economic analysis of public policy rather than the philosophical puzzles of a liberal democratic order that occupied Buchanan from the very beginning of his career.

[42] See Richard Swedberg's (1998) discussion of the Weberian project in economic sociology wherein the logic of economic life always is played against the background of political, legal, and social institutional settings. For a discussion of some of the implications of that discussion for political economy, see Boettke, Coyne and Leeson (2008).

[43] See Ross Emmett (2006) for a discussion of Knight's own efforts to steer the path between historical institutionalism and neoclassical formalism. In Buchanan and Nutter, that effort would result in a "genuine

of the Social Science building at Chicago, Buchanan and Nutter set out to challenge the hegemonic position of Samuelson. While the Chicagoan opponents of the orthodoxy often are homogenized, Buchanan and Nutter adopted an opposition position distinct from their teacher, Milton Friedman.

2.3 Producing a New Generation of Social Philosophers

In his recollections of the origins of the Virginia School, Buchanan notes that he and Nutter named their enterprise The Thomas Jefferson Center for Studies in Political Economy *and Social Philosophy*. "The last three words", Buchanan (2001, 51) states, "were necessary to describe our purpose, but these soon proved too cumbersome for practical usage and were dropped." Drafts of the proposal for the research center provide additional evidence for its purpose that align with Section 2.[44] To motivate the need for the center, Buchanan remarks on the intellectual trends occurring in economics. Buchanan (1956a, 1) writes, "(g)reat emphasis is placed on the mastery of technical tools". He

institutional economics" wherein the various intellectual currents of property rights economics, law and economics, market process economics, and public choice economics would be weaved together into a new paradigm for modern political economy.

[44] See Buchanan (1956a, b, 1956-1957 and 1958). The preliminary drafts, and the final draft are to be found in the University of Virginia's Special Collection. The preliminary drafts circulated in December 1956, followed by the final draft statement in 1956-1957, and then a summary explanation of the Thomas Jefferson Center for Studies in Political Economy and its purpose and programs is published in *The University of Virginia News Letter* (October 15, 1958). A close reading will reveal a very tight correspondence between the purpose and activities to achieve that purpose between all of theoe documents. The real purpose of the program was clear from the start to anyone who understands the indictment of the Samuelsonian revolution in economics that followed the publication of both his *Foundations of Economic Analysis* (1947) and *Economics* (1948). Samuelson embodied a complete shift in economic science at a methodological, analytical, and policy level. Buchanan (and Nutter) were the first among the then younger generation to resist it from within the neoclassical tradition of price theory. They would be followed in the ensuing decades by what became known as New Institutional Economics and would include future Nobel Prize winners such as Ronald Coase, Douglass North, Vernon Smith and Elinor Ostrom. Those eminent scholars constitute what has been dubbed *mainline economics*, a term inspired by Kenneth Boulding (1971), to discuss the long intellectual reach of Adam Smith (see Boettke 2012; Boettke, Haeffele and Storr 2016; Mitchell and Boettke 2017).

continues, "(l)ittle encouragement is given to young men who are genuinely interested in studying broader problems of the social order" and "[t]here are now no social philosophers being produced", he laments. Buchanan (ibid.) concludes his opening pitch by stating simply that, "To start in a small way to produce such a line of new thinkers is an eminently legitimate endeavor for a great university"[45]

What would the center look like? While the research and educational program Buchanan sought to establish would uniquely be interdisciplinary, it would be embedded firmly within the economics department – especially at the start. The reasons were practical because of the departmental affiliations of the program's key faculty drivers (namely Buchanan and Nutter), but also because, although he expected the graduate students to get "thorough grounding in relevant works in social philosophy and in classical economics", there simply was no substitute for gaining a deep understanding of the nature of the price system and the function it serves in a free society than "thorough education in neo-classical economics" (Buchanan 1956a, 5). In the preliminary rendering of the proposal, Buchanan (1956a, 5) makes it as clear as day that "[t]he interweaving of economic training with

[45] In one draft of the preliminary proposal, Buchanan does warn that the leadership of the proposed Center and the university administration must be careful in choosing its name so as not "to incite criticism that it is an organization with extreme views" (Buchanan 1956b, p. 2). Given the prevailing orthodoxy, it should not be surprising that the wrong name would result in unproductive and needless battles. So, even if terms such as "economic liberty" or "individualism" would reflect aspects of the "real purpose of the program", they should be avoided; the scholarly enterprise otherwise might be tagged as "a propagandizing agency" (Buchanan 1956b, p. 2). In that same draft of the proposal, he anticipates critics who, based on the modern drift of economics and the social sciences toward scientism, would accuse an effort to resurrect political economy and social philosophy as "unscientific". At the same time, Buchanan (1956b, p. 7) warns that because of the space created for currently unorthodox approaches safeguards must be firmly in place to weed out "extremists". Buchanan (and Nutter) were interested in building a scientific and scholarly enterprise, not a policy analysis shop, let alone a political activism shop.

appreciation of a general philosophical outlook would be the unique feature of this program."

The final version of the proposal for the Thomas Jefferson Center spells out the problems with modern training in economics in even greater depth than the earlier draft. As it stood in the profession, Buchanan saw that graduate students were directed by instruction and professional incentives to devote their intellectual activities to increasingly narrow topics. In research, technique was replacing substance. "Breadth in scholarship", Buchanan 1956-1957, 1) laments, "is largely eliminated by this emphasis, and the student remains largely ignorant in the related social science disciplines and in social philosophy," Noting the change in the profession, Buchanan (1956-1957, 2; emphasis added) writes, "(a)cademic advancement and promotions standards tend to reward the scholar who produces the orthodox product, *which is now the demonstration of technical proficiency.*" Talented young scholars who had broader interests than just technical economics and were instead interested in political economy and social philosophy were going to be all but eliminated in professional discussions. That is a situation demanding remedy if one believes that "the major problems of the social order can only be discussed rationally from a point of view considerably more inclusive than that represented by any one discipline" (Buchanan 1956-1957, 1-2). The urgency was real, as Buchanan and Nutter demonstrated in their first decade of academic scholarship. Their concerns weren't just matters of minor scholarly preferences, but instead an argument that the technical transformation of economics led to simple points being obscured in the analysis of fundamental issues in public economics and public finance (Buchanan), and in the study of industrial

organization and comparative economic systems (Nutter). Something had to change, or the economic profession would run the risk of becoming irrelevant.

Buchanan articulates in the various drafts of the proposal why UVA was the right place and the right time for transformation. Contrary to some recent interpretations, it had *nothing* to do with Virginia politics in the 1950s. Instead of mass politics, the founders' beliefs rested on (1) the long Jeffersonian liberal tradition at the University of Virginia and (2) the array of supportive individuals in leadership positions: Buchanan, Nutter, key faculty already on the staff, along with an encouraging dean and a favorable central administration (Buchanan 1956-1957, 2). Additionally, as Buchanan (ibid., 3) put it, "[i]t is hoped that, once its established, substantial support and cooperation will come also from the related social science disciplines, notably political science, history, and philosophy." Such an interdisciplinary thrust was, of course, a hallmark of Buchanan's entire career.[46] During its early period, Buchanan not only was an economist who published regularly in the top journals in economics, including the *American Economic Review* (e.g., Buchanan 1950, 1964, 1969) and the *Journal of Political Economy* (e.g., Buchanan 1949, 1954a, b, 1963), but also a social philosopher who published in *Ethics* (e.g., Buchanan 1965, 1967; Buchanan and Di Pierro 1969). And, of course, his book with Gordon Tullock, *The Calculus of Consent* (Buchanan and Tulock1962), is considered to be the founding text of public choice.

[46] His organizational efforts with the Committee on Non-Market Decision Making and, then, the Public Choice Society, genuinely were interdisciplinary from the very beginning and included not only William Riker and the Ostroms from political science, but also James Coleman from sociology and John Rawls from philosophy. On Rawls and Buchanan, see their correspondence reproduced in Levy and Peart (2020, pp. 36-40).

In the final version of the proposal, Buchanan lays out the basic expectations of those who will contribute to the center's scholarly enterprise: "[t]he Center should be made up of scholars who start from the philosophical premise that the free society is worth maintaining, and who sense the dangers to the free society brought about by the ever-increasing role of government, especially highly centralized authority" (Buchanan 1956-1957, 3).[47] In particular, Buchanan singles out scholars who have some affinity with "Manchester" liberalism, Western conservativism, or both, i.e., classically liberal scholars who emphasize the basic ideals of private property, freedom of contract, rule of law, and constitutionally-limited government (Buchanan 1956-1957, 3).[48] As any reader of Herbert Croly's (1909) *The Promise of American Life* would recognize, Buchanan's vision of political economy and the role of the economist in a democratic society differed completely from the progressive vision of political organization, public administration, and economic activity that had become so dominant in both practical affairs and in the self-identity of scientific economics.[49]

The critical fact is that Buchanan and Nutter, following Knight, viewed their point of departure as methodological and analytical in nature as opposed to strictly ideological. They were not engaged in any unusual act of academic exclusion, but instead simply

[47] It must be remembered the TJC was a research center *within* a department, not an independent unit, and certainly not an entire university. Selecting and sorting membership into this sub-community of scholars was critical to success of the *scientific* mission.

[48] It may be important to stress here, as Lionel Robbins (1952) does in his classic text *The Theory of Economic Policy in English Classical Political Economy*, that it is almost impossible to separate the economic analysis of Adam Smith and his contemporaries from the co-evolution of the liberal institutions of governance in Great Britain. It is in that context, we argue, that Buchanan is invoking "Manchester" liberalism – a term associated with the defense of free trade and the repeal of the protectionist Corn Laws in 1846.

[49] See Boettke (2018a) for a discussion of the impact of progressivism on public administration and, in turn, on economics. Also see Aligica, Boettke and Tarko (2019).

following their common-sense recognition that in creating a *research center* the members must have the shared perspective necessary for forming a community of scholars. At UVA, Buchanan and Nutter built that common purpose at the Center through their collaborations, the activities they developed for the Center (including the visitors program and seminar series), and with the fortuitous hiring of like-minded individuals of exceptional quality, namely Gordon Tullock, Ronald Coase, and Leland Yeager, to join them in building the Thomas Jefferson Center and the Department of Economics.

Two important documents from the archives shed additional light on Buchanan and Nutter's motivations for establishing the TJC. First is Nutter's December 4, 1956, letter to Coase gauging his interest in joining the faculty at Virginia.[50] Nutter tells Coase that they have "the makings of what could be a rather interesting little group in Buchanan, Vining and myself - all solid Chicago products who *did our lessons in Knight well*" (Nutter 1956; emphasis added). Nutter then stresses that they cannot hope to build across all fields as the giants in the profession can, so they hope "to build a rather distinctive little 'school'" (ibid.). If they tried to follow the giants' lead, he explains, "we could at best be a third-rate faculty", but if they go down another path, they might be able to build something exceptional (ibid.).

Note the date: December 4, 1956. Buchanan's original draft proposal likewise was dated December 1956. Buchanan and Nutter were jumping at the opportunity to pursue the joint aspirations for a research and graduate education program they had dreamed up back during their student days at University of Chicago. Both men were on an academic and

[50] This letter can be found in Levy and Peart (2020, p. 19).

scholarly mission to build a unique community that would emphasize and build on their Knightian lessons.

What were those Knightian lessons? Again and again in the historical documents, Buchanan argues that in order to advance his hoped-for scientific and scholarly enterprise, economists must combine price theory with institutional analysis.[51] Only by adopting that method can economists preserve the classical tradition of political economy and social philosophy, while at the same time responding effectively to the hegemonic Samuelsonian practice of "scientific" economics.

The same point is reiterated six years later, when Buchanan (1962) drafts a memo to the University of Virginia community entitled "We Must Dare to Be Different". In that document, he recommends that the university adopt the strategy followed within the economics department – which by that time had achieved national recognition among economists. Those first half-dozen years were significant in the history of the Thomas Jefferson Center in terms of publications. For instance, Buchanan's (1959) "Positive Economics, Welfare Economics and Political Economy" was published in the *Journal of Law and Economics*, Buchanan and Tullock's (1962) *The Calculus of Consent* was published by the University of Michigan Press; Coase's (1959) "The Federal Communication Commission" and his (1960) "The Problem of Social Costs" were both published in the *Journal of Law and Economics*, Nutter's (1962) *The Growth of Industrial*

[51] Ross Emmett (2013) details Knight's views on institutionalism and economics, along with his efforts to develop a uniquely neoclassical institutionalism as opposed to the heterodox institutionalism at the University of Chicago. Buchanan often would use the phrase "a genuine institutional economics" in his writings. Without that context, the critics of Buchanan and the Thomas Jefferson Center often confuse a methodological argument with an ideological one, see (Levy and Peart p. 53; Buchanan 1971; Thomas Jefferson Center for Studies in Political Economy 1960)..

Production in the Soviet Union was published by Princeton University Press, and Yeager's (1962) *In Search of a Monetary Constitution* was published by Harvard University Press. As mentioned already, not only the faculty, but the graduate students from the program during the 1956-1968 period comprise a list of outstanding contributors to economics, law, and political science. The combined research output of the Thomas Jefferson Center not only made UVA a distinctive little 'school', but one that was recognized to be among the world's elite departments in economic research and education by the early 1960s. Buchanan thought the lesson was clear and that it was a model that could be generalizable.

We can see Buchanan's strategy in his memo to UVA's Long-Range Planning Committee, which begins with the following declaration: "The university does not, automatically, assume a place among America's leading educational institutions. Nor does it, automatically, drop to a place among those of acknowledged second-rate. Even more than most, the university's position in either the first or the second of these two groups depends on its own choices" (Buchanan 1962, 1). Perhaps sensing that the first statement might have shocked the sensibilities of his UVA colleagues, Buchanan tells his reader that, "[t]here are unique, and attractive, attributes of physical environment, of tradition, and of location", but, he continues, "[t]here are severe restrictions on financial resources, on research personnel, on top-quality students" (Buchanan 1962, 1). Then, ever the economist, Buchanan stresses to his colleagues that the question before the university's leadership is how to best operate to achieve first-rate status given the constraints, before concluding that, "I submit that it can do so only if it dares to be different" (ibid.).

To make his point, Buchanan turns to the experience of the Thomas Jefferson Center and the Department of Economics. In a move that he must have known would disturb the sensibilities of his colleagues from other departments, he writes:

> Our best guarantee of mediocrity would have been uncritical acceptance of drift, resulting in a departmental faculty that was unspecialized and unconcentrated, with individual members working singly and alone on the separate sub-disciplines with little genuine communication on with the other. Instead of this, we chose, deliberately and explicitly to concentrate our efforts on the problems and methods that are summarized in the terms 'classical political economy'. (Buchanan 1962, 2)

Buchanan then connects the strategy to the newfound international recognition of the Virginia School of Political Economy. "Our strength", Buchanan (1962, 2-3; emphasis added) stresses, "lies precisely in the fact that it is different from other economics departments in its concentration. *Only by daring to be different can small departments ever hold claim to positions of national recognition*."

Another feature of the text clearly is relevant in hindsight: Buchanan foreshadows the growing tensions at UVA that eventually would lead to the demise of the Thomas Jefferson Center (and the Department of Economics) as an elite research and graduate educational program by the decade's end. As Buchanan (1962, 3) puts it, "(t)he difficulties that the economics department has faced in carrying out this policy suggests that the approach here indicated is not wholly empty. Daring to be different will, naturally, be opposed by those who fail to understand."[52] That foreshadowing is critical for

[52] In the late 1970s and early 1980s, when Buchanan would once again run afoul of his critics, this time at Virginia Tech, culminating in his departure and that of the Center for Study of Public Choice in 1982 to George Mason University, he would produce a biting essay "The Dishwater of Orthodoxies" (Buchanan 1982) as his final salvo at his years in Blacksburg. The lure of mediocrity, Buchanan insisted, for those enamored with orthodoxy and faced with the creative and bold academic entrepreneur always will invite trouble from those unwilling to see or appreciate the necessity of "daring to be different".

understanding the various twists and turns Buchanan faced throughout his career in orchestrating his scientific revolution against the hegemonic Samuelsonian paradigm. We will come back to that broader point in the conclusion, but for now, let us emphasize that the real purpose of the program was to launch a scientific revolution. It is clear from the evidence in the archives and in first-person accounts that what James Buchanan was interested in was a reconstruction of the discipline of political economy, which incorporated advances in price theory while still addressing fundamental questions in social philosophy. The tangible goal of the Thomas Jefferson Center was to gather a community of like-minded individuals who could together produce first-rate scholarship and who could contribute in meaningful ways to the education a new generation of thinkers. Thinkers capable of producing economic research incorporating political, legal, and social institutional features that would engage and interest technical economists. And, ultimately, Buchanan hoped, TJC would produce thinkers competent enough to engage directly in the philosophical conversations influenced by their analyses.

2.4 Make a Plan, Work a Plan

The preliminary proposal for the Thomas Jefferson Center, the final proposal, and the first public summary of the activities of the Center are remarkably consistent. No stealth strategy was behind the scene; Buchanan and Nutter had a plan and they worked that plan. They sometimes referred to their project, as in Nutter's recruitment in the mid-1960s of William Breit to the faculty, as an effort to "save the books".[53] How did they communicate

[53] See Breit's (1986) discussion of his recruitment to UVA and a sense of the unique intellectual atmosphere the Thomas Jefferson Center and the Department of Economics represented at the time.

their project to the outside world? Let us now turn to the message Buchanan sent to the community at large in his *The University of Virginia News Letter* article of October 15, 1958. He starts by stating simply stating that "The Thomas Jefferson Center for Studies in Political Economy was organized at the University of Virginia in 1957, and it is still in the early stages of its operation. This article will tell readers of the *News Letter* something about the Center: the ideas behind its organization, its general aims and purposes, its administration, its operations to date, and its plans for the future" (Buchanan 1958, 5).

Buchanan (1958, 5) then goes on explicitly to describe why the Center was organized in the first place:

> The Thomas Jefferson Center strives to carry on the honorable tradition of "political economy" -- the study of what makes for a "good society." Political economists stress the technical economic principles that one must understand in order to assess alternative arrangements for promoting peaceful cooperation and productive specialization among free men. Yet political economists go further and frankly try to bring out into the open the philosophical issues that necessarily underlie all discussions of the appropriate functions of government and all proposed economic policy measures.

Next, Buchanan argues that the growing specialization of academic disciplines and the emphasis of technical questions isolated academics from important societal issues. Some scholars, Buchanan insists, must concern themselves with broader issues, be prepared to engage actively in and to stimulate open and lively discussion of the political-economic philosophy of a free society.

After clearly stating that mission publicly, Buchanan introduces the slate of activities that the Thomas Jefferson Center is dedicated to pursuing. First, and primarily, is scholarly research. No effort will ever be made to "buy research", as Buchanan (1958, 6) puts it. Instead, the Center will seek to attract and work with scholars who share a

commitment to broader questions of political economy and social philosophy. “The Center”, Buchanan wrote, “serves as a means of identification, of association, for those scholars. It tries to provide them with an environment within which they will be individually motivated to undertake research.” But Buchanan (ibid.) adds quickly that, “such research must come from the individual interests of the cooperating associates; the Center does not, in any way, suggest or promote specific studies.” He was attempting to create an environment that would stimulate and cultivate creative research among the community of scholars gathered at the Center.

Additionally, Buchanan (ibid.) states, that the center will pursue educational goals. While education is central to the program, the Center itself will offer no courses, nor grant any degrees. Students attracted to UVA by the center’s activities will pursue their studies within the specialized departments of the social sciences and humanities. The center’s purpose is to create “an environment in which discussions and debate on fundamental issues can proceed, by providing intellectual stimulation for such discussion, and by encouraging individual participation in such discussion, the Center aims at supplementing and enhancing the acquisition of technical competence in the regular academic disciplines.”

Buchanan then details the activities the center has engaged in, as well as his plans for its future so as to achieve lofty goals. The first is a Distinguished Visiting Scholar program tied with public lectures. Second, the center will establish regular seminars with a continuous stream of established and younger scholars presenting their research for critical discussion. Third, the center will offer graduate student and post-doctoral

fellowships to attract promising talent to the University of Virginia and to join the community of scholars interested in political economy. And, finally, the center was to be a clearing house for independent research projects contributed by the permanent members of the faculty associated with it (Buchanan 1958, 6-7).

As stated from the proposal's various drafts to its official public description, the Thomas Jefferson Center was envisioned as a research and graduate educational program with the intention of sustaining classical political economy in an age of increasing specialization and preoccupation with the mastery of technical tools. Buchanan and Nutter were staking out a claim for the political economist as social philosopher in the age of the economist as social engineer. Their fate was that of a moral philosopher in the age of economic scientism. They were just younger versions of what Knight and Hayek had represented to the last generation. Every step those scholars took in the context of their work at the TJC and at the University of Virginia is consistent with that stated message. The first Distinguished Visiting Scholar, directly aligning with their founding vision, was their teacher Frank Knight. Knight's lectures at UVA were published in 1960 as *Intelligence and Democratic Action* by Harvard University Press. The second Distinguished Visiting Scholar was future Nobel Prize winner Maurice Allias, followed by Swedish economist Bertil Ohlin. The center eventually would host, separately, F. A. Hayek and Michael Polanyi.

Those were the center's activities – research and education, visiting professors, public lectures, seminars, graduate student fellowships, post-doctorate positions, and the managing of research grants for permanent faculty. The result was a continuous stream of

publications by the program's faculty and graduate students. The center not only produced publications, but research of impact that would within a few decades be recognized with the highest honors of scientific achievement. As Buchanan argued in that memo to the Long Range Planning Committee, by "daring to be different" they made an impact that far outmatched any reasonable expectation given the existing constraints at University of Virginia during the 1956-1968 period.

2.5 Conclusion

Buchanan and Nutter expressed to one another a notional demand for changing economics as a profession as they both were finishing graduate school. They had learned their lessons well from Frank Knight, but they could sense that the tide within the economics profession had turned so drastically, including methodologically, analytically, and social philosophically, that their space within it already was shrinking and becoming alienating. That notional demand was transformed into an aspirational project when they found themselves at the University of Virginia in 1956. They acted quickly on that opportunity to turn their aspirations into reality with the founding of the Thomas Jefferson Center for Studies in Political Economy and Social Philosophy. We use the full, unrealized name purposefully because it communicates both the reasons for and the extent of their differences with the emerging technocratic orthodoxy.

Buchanan fought his entire career to steer a path between conforming to the orthodoxy and descending into the arrogance of the eccentric.[54] Both paths, he believed

[54]From the 1956 proposals and related discussions between Buchanan and Nutter and the University of Virginia administration onward, it is evident that while they were very concerned with the growing hegemony of Samuelsonian economics (modern orthodoxy) they also insisted that their work would meet the highest standards of professional competence. Neither Buchanan nor Nutter were content to be isolated

strongly, pointed toward intellectual ruin. One risked irrelevancy and the other monotony. Genuine intellectual life in the fields of economics, political economy, and social philosophy never can be allowed to become monotonous. But genuine intellectual entrepreneurs, as creative destroyers of the existing comfortable paradigms, often will face resistance either from inside or outside of their disciplines. The heretic can be tolerated only for so long.

Buchanan learned that lesson in some very hard ways throughout his long and distinguished career in building the Virginia School of Political Economy at three separate institutions in the Commonwealth. At the University of Virginia, forces coalesced outside of economics to conspire against the Thomas Jefferson Center and the Department of Economics. The University of Virginia did not attempt to retain Coase when Chicago bid him away in 1964, and Tullock was turned down for promotion from Associate to Full Professor in 1967. In fact, a "secret report" was produced in the mid-1960s by faculty outside of economics attacking the Department of Economics, despite the fact that the department was – as we reported – one of the elite research and graduate education institutions named in an American Council of Education report. It didn't matter. *Ideological* opposition was allowed to trump academic excellence.[55]

professionally and sought direct engagement with the profession at large. "Daring to be different" was the academic and scientific strategy that they thought would negotiate a course between the two paths they deemed to be undermining knowledge generation in the related, but distinct disciplines of economics and political economy.

[55] The report is reproduced in Levy and Peart (2020), and what is astonishing to anyone who knows the history is that a claim is made that opportunities for graduates of the program will be limited because of the ideological nature of the program. The reality is that early graduate students of the Thomas Jefferson Center and students who worked directly under Buchanan were placed in academic posts at Carnegie Mellon University (Toby Davis), the California Institute of Technology (Charles Plott), Cornell (Robert Tollison), the University of Pennsylvania (Mark Pauly), and the University of California at Irvine (Richard Wagner), to name just a few. For more on the academic network of public choice, see Farvaque and Gannon (2018).

After a short sojourn at the University of California, Los Angeles (UCLA), Buchanan joined forces once again at Virginia Polytechnic Institute and State University (VPI) in 1969 following the invitation of a former UVA Ph.D. -- Charles Goetz. There, they established the Center for the Study of Public Choice. From 1969 to 1982, Buchanan and his colleagues were able once again to establish an international reputation of academic excellence for the Department of Economics and the university as a whole. One could argue that the social philosophical emphasis of the Thomas Jefferson Center was less evident during the VPI era, but that would only reveal a lack of understanding of the analytical underpinnings of Buchanan's efforts in political economy and social philosophy. One must remember that the Knightian project was to blend institutional analysis with price theory. At VPI, Buchanan wrote *Limits of Liberty* (Buchanan 1975), Tullock published *The Social Dilemma* (Tullock 1974a), and they both were involved in the *Explorations of Anarchy* project (Tullock 1972, 1974b). Through their joint efforts, public choice as a positive science took shape during the VPI years.[56]

Unfortunately, Buchanan once again would face challenges and this time it wasn't from outside, but from inside of the Department of Economics itself. Whereas at UVA it was ideological opposition, at VPI the objections were of a *methodological* nature. The lure of the Samuelsonian conventions in modern technical economics was just too great for key decision makers, and their desires to be ordinary economists thus ran into conflict with

In addition, many of the substantive claims made about departing faculty were in fact challenged by Nutter, who was then chairman of the department. Nevertheless, the committee was emboldened to write that the university should not allow the department to recruit any more graduates from, or adherents to, the Chicago School of Economics. That attitude eventually led to the departure of future Nobel Prize winners Buchanan and Coase, as well as AEA Distinguished Fellow Gordon Tullock.

[56] For example, the work on the rent-seeking society; see Buchanan, Tullock and Tollison (1980).

Buchanan and his colleagues at the Center for Study of Public Choice. Buchanan and Tullock were forced to decamp once again, moving this time to George Mason University.

Now is not the time to embark in a long discussion of the experience at George Mason University (GMU), except to note three things. First, Buchanan was joining forces at GMU with another Center that shared his vision of research and graduate education from the UVA years. While less influenced by Knight, the Center for the Study of Market Processes (CSMP) was aligned with Buchanan's project by its Hayekian challenge to the prevailing orthodoxy. Karen Vaughn, who had helped orchestrate the move of CSMP from Rutgers (Newark) in 1980, was able to convince Buchanan and his colleagues that the young, upstart university with a new economics Ph.D. program represented an opportunity to build a unique and exciting research and graduate education program unencumbered by the factors now frustrating him at VPI. Given his growing annoyance with the situation at VPI, the possibility of joining forces with another closely aligned research center made GMU attractive to Buchanan. In 1982, the decision was made to move the Center for Study of Public Choice to GMU. Second, from the initial negotiations to move to GMU, Buchanan stressed both to the university's decision-makers and to his colleagues joining him in the move from VPI that GMU represented a new opportunity to "Dare to Be Different". If it made no sense to turn UVA into a department mimicking the top departments, it surely made no sense to turn a newer, lower-ranked department into one. Buchanan stressed that they had the opportunity to be distinctive and, in being so, to be first-rate within their respective specialties. Buchanan would truck and barter no more with people who sought to block his way because of perceived ideological or methodological

differences. The new program at GMU would stress technical competence in the discipline, as it must, but it also would provide (as the Thomas Jefferson Center once did), the space for individuals of creative talent and energy to let their curiosity guide them in the explorations of economics, political economy, and social philosophy. And, finally, GMU period was marked by Buchanan being awarded the Nobel Prize in Economic Science in 1986. Owing in no small part to the efforts of James Buchanan, the transformation of that comparatively new university continues. [57]

The "real purpose" of Buchanan's research and graduate educational initiatives for more than 50 years still is a vibrant project because of the persistence of the hegemonic scientific program in economics guided by utilitarianism, engineering, and elite rule. The resistance to that dominant scientific program in economics must be refined and voiced repeatedly if political economy within a democratic society is to be practiced properly. In this centennial celebration of his birth, let's hope that James Buchanan's mission to reconstruct the grand and honorable tradition of political economy and to place it at the forefront of the professional training of scholars continues to inspire economists to reach for new heights of creative thinking on the serious issues facing the 21st century.

[57] Henry Manne would relocate to GMU's School of Law and bring with him his Law and Economics Center in 1986; Vernon Smith, who taught economics and law at GMU from 2001 to 2008, established the Interdisciplinary Center for Economic Science and won the Nobel Prize in economics in 2002. GMU was recognized as an R1 Institute of Higher Education in 2016. Today, GMU is Virginia's largest public research university and enrolls more than 37,000 students.

CHAPTER THREE- METHODOLOGICAL CONFUSIONS AND THE SCIENCE WARS IN ECONOMICS

3.1 Introduction

> Economics will have to become, once again, more a forum for the open contention among interpretations of theory and history, than the kind of simulated laboratory for the objective testing of hypotheses, or ivory tower for the proof of mathematical theorems, it is now
> (Lavoie 2011, 94)

A striking feature of the last decade in economics is how little has changed since the Great Recession. In the aftermath of one of the most stunning financial collapses of the last century, the U.S. Congress appointed a Financial Crisis Inquiry Commission tasked with identifying the cause of the crisis. This commission held an extensive series of hearings, interviews, and roundtable discussions through 2009 and 2010 that asked Joseph Stiglitz, John B. Taylor, Luigi Zingales, Frederic Mishkin, Paul Krugman, Alan Greenspan, Ben Bernanke, and other prominent living macroeconomists to explain how the discipline could have been so wrong (Financial Crisis Inquiry Commission 2011). Around the same time, a group of eight economists, including noted historian of thought David Colander, circulated a paper that attributed the crisis at least in part to the common practice of building macroeconomic models that matched neither the dynamism nor the political reality of actual financial institutions. Economists not only built these models, but they sent them out into the world for actual use without proper transparency and context about the limitations and risks associated with use of those models, making the failure one not only of science but also possibly of ethics. Colander et al. (2009, 13) attributed this result to "[p]aradoxically self-reinforcing feedback effects within the profession" that "led to the

dominance of a paradigm that has no solid methodological basis and whose empirical performance is, to say the least, modest."

This backlash against economics made for some good television, but it remains far from obvious that this moment of reckoning had any long-term impact on the way economics is practiced professionally. Despite the sound and fury of opinion editorials from economists and public intellectuals decrying the discipline, the nature of economic research and teaching stands little changed (e.g. The Economist 2009). Economists at the London School of Economics sent Queen Elizabeth a letter of apology for failing to predict the crisis, but they did not alter their syllabi (Pierce 2008). Should they have? Should economists be able to predict such events as financial crises? If not, what is the value of economics, and why should anybody pay attention? Despite their centrality to the very existence of the discipline, these questions receive comparatively little ink.

Indeed, far from addressing these foundational questions, many economists seem to have doubled down on these predictive methods. The growth in the share of empirical papers represented in the profession's top journals is matched by the decline in history of economic thought, pure economic theory, philosophy, and methodology (Hamermesh 2013). Those "methodological" questions which are discussed in the profession are those of statistical or experimental methods, not economic methodology per se. A genuine conversation about economic methodology would involve grappling directly with the question of what social scientific inquiry can and cannot say about the economy and economic behavior. What does it mean to take a truth claim in the social sciences given the fundamental subjectivity of the human experience? What are the epistemic limitations of

the social scientist, and how does the humanity of our objects of study change the nature of the scientific project? How can one human being understand another, and how much understanding is required for cooperation and coordination to be able to take place? Until and unless such questions are seriously engaged, the soul of economics remains in flux, and economists will continue to be put in the awkward position of having to defend ourselves from failed efforts—such as macroeconomic prediction—that never should have been attempted in the first place.

This battle over truth, relevance, and the role of scientific inquiry—the so-called "science wars"—is taking place not just in economics, but across the academy. The science wars are an ongoing series of debates that have taken and are still taking place across the sciences, social sciences, and humanities over the nature of reason and truth. Sparked in large part by challenges from postmodern scholars and others who viewed orthodox scientific methods and conceptions of rationality as flawed, this debate pushed a conversation about the purpose and validity of science itself front and center (Ross 1996). In economics, this has taken the form of a series of challenges to not only the dominant methods, but also the traditional subject matter and mode of reasoning. As Bruce Caldwell observes, economics has become one of the last strongholds of positivist thinking, often without the economists themselves being aware of their positivism or its implications (Caldwell 2013, 756). He attributes this to the discipline's scientistic attitude, an approach which seeks to emulate the natural sciences and raise the status of economics through quantification, formalization, and prediction. In addition to the problems of scientism and predictive overreach, the dominant methodologies within economics have also been

criticized for being insufficiently human and not dealing adequately with complexity and diversity.

This is not a new conversation. In 1974, F. A. Hayek opened his Nobel Prize acceptance speech by chiding his peers in economics for having devised and advocated for economic policies that had contributed to the stagflation of the 1970s: “We have indeed at the moment little cause for pride: as a profession we have made a mess of things” (Hayek 1989, 3). Economists were succeeding in gaining some of the acclaim afforded their peers in the natural sciences, but in doing so, they were getting further and further from the understanding of economic processes that was the core of their discipline. Many extended and added on to Hayek’s criticisms during the 1980s and early 1990s, including Bruce Caldwell (1982), Don Lavoie (1986, 1990), and Deirdre McCloskey (1983, 1985). Yet, the economic crisis of 2008 still happened, and the discipline of economics continues down the path of scientism and all that entails. As such, renewed attention to the tensions raised in the “Science Wars” is not only important for understanding the purpose of economics and its relationship to truth, but also why this debate about the nature of science has not had a bigger impact on the practice of economics in the twenty-first century.

The stakes are critical, particularly for Austrian economics and other frameworks that incorporate a subjective theory of value in which decisions are made based on personal valuations that can be observed only momentarily and incompletely. The cooperative, constitutive nature of human society requires an approach to social science that can address the complications posed by subjectivity, diversity, and the processes through which people come to be able to understand each other and work together. It is the blindness to the

importance of such a lens that has left economics behind other disciplines in studying many important aspects of cooperative social behavior, especially with respect to understanding systems with social hierarchies, whether built around culture, race, gender, or social or political class, and other questions that require the robust incorporation of multiple perspectives. This blindness is also an opportunity, particularly for Austrian economists, who have at their fingertips an analytical frame- work that recognizes both the importance of socially constructed institutions and the constrained nature of all human activity. Ironically, while Lavoie's interpretive work was unfairly criticized as constraint-free, truth-free relativism, it offers a bulwark against analysis that ignores these very real constraints and how they impact behavior in societies across the world.

The next section of this chapter presents the "science wars," a series of debates about postmodern critiques of realist methodologies and the nature of knowledge. In section 3, we pay particular attention to the relevance of these debates for the discipline of economics and accepted standards for what can be considered to be known in empirical research. In section 4, we discuss challenges issued by Don Lavoie and other economists in the Austrian tradition on the importance of interpretation to the social sciences. In section 5, we propose two opportunities and a significant challenge to the discipline of economics that emerge from the Science Wars. The opportunities are: 1) to incorporate post-positivist philosophy of science as a way to better understand the polycentric nature of the meanings that become attached to institutions, which is of particular importance for research programs that take problems of hierarchy and oppression seriously, and 2) to do better empirical work by robustly incorporating interpretation into the gathering and analysis of

data rather than relying on statistical sophistication as a heuristic for empirical quality. The challenge is to do this work without abandoning economic theory itself, preserving the universality of the logic of human choice while abandoning the illusion of a universality of experience and the desirability of a single, best scientific method. Section 6 concludes with some potential directions forward.

3.2 Science Wars

The 'science wars' were a series of debates during the 1980s and 1990s which took place between postmodern and realist scholars. Many of the postmodern scholars were from the humanities and social sciences while many of the realist scholars were from the natural sciences. While the debate (especially the postmodern position) can be difficult to parse, the core of the controversy is a methodological and epistemological loggerhead about the nature of reality and social interaction.[58] To oversimplify, on one side stand the realists, committed to logic, evidence, objectivity, and the linearity of scientific progress; on the other side stand the postmodernists, committed to a belief in the subjective and socially constructed nature of human experience and skeptical of the way logic and evidence have been and will be employed within the academy. This divide has often taken on a political dimension as well, typified by radical leftists on the postmodern side and old-guard conservatives on the realist side (Ross 1996; Gross and Levitt 1994).

One particularly fraught concept within the science wars is the idea of social construction. Social construction has many definitions, but some important common

[58] (Ashman 2001) and (Parsons 2003) are two accessible volumes which draw on scholars on both sides.

threads are (1) that beliefs can come to be shared, which is not so controversial; (2) that shared beliefs need not equate to any objective reality, which is quite controversial; and (3) that these shared beliefs affect people and shape their choices in real ways. This latter point is not so controversial among the social sciences, where it fits quite nicely with with the view that subjective beliefs affect our choices. However, in the natural sciences, depending on the case it is being applied to and how extreme a position is taken, the idea of social construction can pose a serious challenge to those working in fields commonly accepted as dealing within the realm of the objective. As such, the concept is often cited as a defining feature of postmodern depictions of science (Hacking 1999) and has become something of a lightning rod within the science wars, drawing the ire of realist scholars who insist on the real nature of scientific discoveries apart from the sociology or culture of the scientists.

In the popular press, the Science Wars were emblematized by the Sokal Hoax2 where Alan Sokal, a mathematical physicist, submitted an article titled: "Transgressing the Boundaries: Towards a Transformative Hermeneutics of Quantum Gravity" (Sokal 1996a) to a special "Science Wars" issue of Social Text. The postmodern cultural studies journal accepted the article. On the day of publication, Sokal published a separate article in the magazine, Lingua Franca where he revealed that the original article was written as a parody. Sokal writes:

> In short, my concern over the spread of subjectivist thinking is both intellectual and political. Intellectually, the problem with such doctrines is that they are false (when not simply meaningless). There is a real world; its properties are not merely social constructions; facts and evidence do matter. What sane person would contend otherwise? And yet, much contemporary academic theorizing consists precisely of

> attempts to blur these obvious truths – the utter absurdity of it all being concealed through obscure and pretentious language (Sokal 1996b)

The Sokal Hoax reflects a long-simmering battle between academics about the nature of science. In the dramatic rendering often created by realists, the dark forces of nihilism and abstruse European philosophy threaten the core of Science. There was often but not always an explicitly political component of the debate. While Sokal himself was a leftist, in the popular imagination, the realist camp came to symbolize the right while the postmodern camp symbolized the left (Aronowitz 1996). In his satirical article, Sokal stresses his progressive politics: he argues that the postmodern critiques of the traditional science as patriarchal, elitist, and authoritarian provide "powerful intellectual support for the progressive political project" (Sokal 1996a, 229). In many ways the Science Wars have continued into the twenty-first century with semi-routine flare ups in the popular press about issues of social construction and the sociological nature of scientific understanding.

A follow-up to the original Sokal Hoax[59] was revealed in 2018 when three authors came forward to announce that they had written and successfully published four articles (with three more accepted for publication) which were intended as parodies of the cultural studies field (Lindsay et al. 2018). By demonstrating political bias in the fields, the authors sought to undermine methodological and epistemological tenets which they viewed as deeply problematic. Again, the concept of social construction comes under fire, and they are particularly critical of the concept being used in a way that is "nearly entirely dependent upon power dynamics between groups of people, often dictated by sex, race, or sexual or

[59] Also called the Sokal affair

gender identification" (Lindsay et al. 2018). Like Sokal himself, they argue that this approach is not merely wrong, but an active attack on science and on the academy:

> Underlying these alleged 'social constructions' is the most deeply concerning of them all. This is the belief that in urgent need of 'disrupting' is the simple truth that science itself—along with our best methods of data-gathering, statistical analysis, hypothesis testing, falsifying, and replicating results—is generally a better way of determining information about the objective reality of any observable phenomenon than are non-scientific, traditional, cultural, religious, ideological, or magical approaches (Lindsay et al. 2018)

The position the hoaxers are seeking to counter can be seen in the statement used by Mary Romero (2018), incoming president of the American Sociological Association (ASA), when she chose this broader methodological battle and its scholarly and political implications as the theme for the 2019 ASA meetings:

> In facing the growing normalization of racism, nationalism and xenophobia, many sociologists are critically examining the concept of objectivity and its role in maintaining hierarchies of power within the discipline. In exploring steps toward a more epistemologically sound construction of unbiased methodological processes in sociology, the following questions emerge: What does 'objectivity' mean? What is the role of objectivity in our field? Are objectivity and detachment the only routes to scientific validity? Can the linkage between sociology and public engagement lead to a sounder science and weaken status hierarchies within the discipline? Does the reification of objectivity and detachment in the discipline serve to reinforce status hierarchies more than produce sound science? Does a sociology that converges scholarship with applications to social equality create meaningful opportunities to shape social and economic policies? How significant is public sociology and purpose-driven-science in connecting empirical work to social justice scholarship?

Economics is far from immune to the critiques offered in the Science Wars, yet, the discipline in many ways seems to be unaware that it has been on the receiving end of any blows. In the following section, we discuss the implications of the science wars for the discipline of economics as well as possible explanations for this lack of awareness.

3.3 Traditional Methods of the Economic Sciences and a Challenge

The classic article which captured the prevailing methodology of economics in the second half of the twentieth century was Milton Friedman's "The Methodology of Positive Economics" (Friedman 1953; McCloskey 1983, 485). The paper has the distinction of being "the only essay on methodology that a large number, perhaps a majority, of economists have ever read" (Hausman 1992, 192). As such, the paper has been written about by many historians of economic thought and scholars of economic methodology. (Blaug 1998) argues the paper led directly to the formalization of economics. The core of the paper is captured when Friedman writes:

> (the task of economics) is to provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by the precision, scope, and conformity with experience of the predictions it yields. (Friedman 1953, 4)

Another foundational text of midcentury neoclassical economics is Foundations of Economic Analysis (Samuelson 1947), on which it was remarked, "if any document has a claim to being the high church expression of mainstream postwar philosophy of economics among economists, this is it" (Ross and Kincaid 2009, 26).

What exactly is this mainstream postwar philosophy of economics? Contemporary philosophy of science must be understood considering the early twentieth century push towards positivism, beginning with the logical positivism of the Vienna Circle (Caldwell 1982, 1991). Crudely speaking, the logical positivists of the Vienna Circle held the idea that in order to determine whether a statement is scientific it must be subject to verification. All statements which can be verified are scientific and those which cannot be verified are not scientific. The demarcation of science and non-science is determined by verification.

Here verification is used to mean empirical observation. The approach was similar to that developed by the American physicist Percy W. Bridgman, who developed the idea of operationalism, which argued that a scientific concept was no more and no less than the operations that could be performed to measure it (Caldwell 1982, 15).

As positivist methodology continued to develop, the usefulness of the concept of verification came under criticism because of the way in which it ruled out all general claims. Verification as a standard meant that even the possibility of a single counter-example could take down your theory. Popper is credited with identifying this fundamental problem (Popper 1934, 1959). He argued that since deductive-nomological explanations begin with at least one universal law to deduce an explanandum, they are by nature unverifiable. In other words, "if the logical positivist criterion of verifiability rather than Popper's falsifiability is used, explanations employing universal laws would have to be judged as non-scientific" (Caldwell 1991, 3). The implication is that there is no logically consistent way to combine the idea of positivist verification with economic theory, which is by definition a set of universal laws.

As an alternative, Popper proposed the use of falsification as a measure of scientific integrity. When falsification replaces verification as a means of evaluating truth, theories are considered to be provisionally true until they are falsified. However, like verification, falsification is strict enough that it rules out wide swaths of inquiry. Specifically, any positive claim cannot be tested since there is no way to conclusively prove that something doesn't exist (Caldwell 1982, 21). While economists may be guilty of citing Popper more than they read him, economics is often considered a Popperian field (Lewis 2003). The

implication is that science is a process of conjecture and refutation. This is the way contemporary economists tend to operate: 1) A falsifiable or refutable prediction is made according to economic theory (and the individual situation) 2) empirical evidence (increasingly of an econometric variety) is used to test the theory. If the empirical evidence does not reject the hypothesis, a point is awarded in its favor. This is the base on which the neoclassical synthesis was built.

Like verifiability and falsifiability, other proposals of criteria that could be used to sort the scientific from the unscientific—including confirmationism and instrumentalism—similarly proved either too strict or not strict enough, rendering them not as useful in practice as their originators hoped. One possible explanation is that there may not be a good way to come up a single metric of scientific-ness. Caldwell (1982, 245) argues that the search for a single scientific method is "quixotic," and worse, misses out on the fact that "The story of science involves both constancy and flux, both bold conjectures and rigorous criticism, both normal science and revolutionary crisis. The positivist fixation on the objective side of science missed half of a beautiful and complex tale." Instead, what is required is an approach to science that admits multiple methods and encourages critical evaluation of the usefulness of those methods in different contexts.

During the mid-1980s, Deirdre McCloskey advocated for a different kind of change to the practice of economics. McCloskey's critique began with the publication of "The Rhetoric of Economics" in the Journal of Economic Literature (McCloskey 1983). The article is an attack on the core methodological assumptions of mainstream economics, which the author refers to as the modernist (her term) or positivist methodology and which

by the time of writing had attained the status of "… a revealed, not a reasoned religion" (McCloskey 1983, 486). Rather than attacking the methodological standard by proposing another prescriptive standard, she uses textual analysis (mostly close readings of seminal economics papers) to show that the way economists argue in practice does not match the existing methodological standard as described in theory. McCloskey argues that the task set for the field by economists is impossible and that in practice economists rely on rhetoric and literary devices to make arguments. For instance, McCloskey refers to the rhetorical power of "lemons" in (Akerlof 1970) and "islands" in (Lucas 1972) among other seminal papers (McCloskey 1983, 505). More than just relying on literary devices, McCloskey also views major arguments as literary in character. For instance, she looks at the Cambridge Capital Controversy as a literary argument about the metaphor of capital and production:

> The very violence of the combat suggests that it was about something beyond mathematics or fact. The combatants hurled mathematical reasoning and institutional facts at each other, but the important questions were those one would ask of a metaphor-is it illuminating, is it satisfying, is it apt? How do you know? How does it compare with other economic poetry? After some tactical retreats by Cambridge, Massachusetts on points of ultimate metaphysics irrelevant to these important questions, mutual exhaustion set in, without decision. The reason there was no decision was that the important questions were literary, not mathematical or statistical (McCloskey 1983, 506).

In addition to arguing that economists fail to live up to the modernist task, McCloskey argues that while this task was once reasoned and on a strong philosophical foundation, by the time of her writing, it was neither.

In attempting to displace the existing methodology of mainstream economics, McCloskey and Lavoie, discussed in the next section, both seek to weaken the claims of the received view of economic methodology. To make their argument that mainstream

economic methodology sits on a weak foundation, Lavoie and McCloskey both rely on post-positivist developments in the philosophy of science made after the adoption of the reigning methodology. [60] Additionally, both authors build on the pragmatic tradition of Dewey and Rorty (Lavoie 2011, 96, 103; McCloskey 1983, 483–84, 487, 509).[61] Lavoie builds his interpretive economics on similar developments in the philosophy of science as McCloskey, but he also builds on the body of thought in continental philosophy and on praxeology.[62] By incorporating these insights and returning attention to the nature of economics and of the kind of information that is important for economic analysis, Lavoie and McCloskey both in their own way brought attention to a serious set of methodological confusions that continue to baffle and limit the contributions of economics today.

3.4 Challenges to the Neoclassical Hegemony from within the Austrian Tradition

The opportunities and the challenges presented by post-modern and post-positivist ideas are best understood through the work of Don Lavoie. Lavoie rejected the deconstructionism of postmodern thought (Lavoie 2011), but argued in favor of an 'interpretive turn' in economics, in which a discipline increasingly focused on objectivist conceptions of both reason and fact would instead renew its focus on the way that expectations and beliefs shape the decision-making processes of individuals. Postmodern thought issues important challenge to scientistic attitudes, particularly those taking the form of uncritical acceptance of claims that formalization and technical sophistication are

[60] See: (Lavoie 2011, 92 fn 2) for Lavoie's original influences in the growth of knowledge literatures.
[61] See: (Boettke et al. 2004) for an extended treatment of the relationship between the pragmatist tradition and Austrian economics.
[62] See: (Lavoie 2011, 96 fn 7) for the list of Lavoie's original hermeneutic influences.

always improvements in understanding, regardless of the nature of the question being asked and the observability of its most important data points. Challenging the inappropriate use of formalization and empirics are well known projects within Austrian economics, and Lavoie's work within this tradition will provide a fruitful jumping off point for the challenges and opportunities the Science Wars present today.

In building up this vision of the nature of economics, Lavoie drew on the concept of hermeneutics. Hermeneutics originally referred to the exegetic practice of biblical analysis, but starting in the 19th and twentieth century has been used to describe various practices of philosophers and social scientists mainly in the German-speaking world. A central aspect of hermeneutics is its stress on the dialogical nature of interpretation (Lavoie 1990, 1–2). When applied to the interpretation of written works, this implies that meaning hinges on not just the words of the text itself, but on the dialogue between the reader and the text. The meaning of a text is influenced not only by the words on the page but the experience and thought process of the reader herself. What one brings to Odysseus' homecoming is not just a feature of Homer's text, but of ones' own experiences of separation, how far the distance and how long it lasted, and whether the part played was that of the departing adventurer or the abandoned lover.

This idea matters for the discipline of economics in two ways: "our understanding of the texts of economics; and our understanding of the 'texts' of the economy- that is, the price movements, or monetary institutions, or industrial organization of economies, each of which is the meaningful product of human minds" (Lavoie 1990, 2). In this way of thinking, in order for one to understand the actions of individuals, one must understand the

subjective meaning placed on the actions by the individuals. As (Hayek 1943, 3) notes, the relevant data in the social sciences are "what people think they are." Although this may be obvious for "a charm believed to protect the wearer's life, or a ritual destined to secure good harvests," the harder truth to incorporate into economic analysis is that the value people believe something to hold is the relevant factor for all decision making, not just those decisions that involve charms and rituals. For instance, to offer a stylized example, the rate of child vaccination may suggest to the researcher that particular fashionable neighborhoods in Los Angeles are being denied medical resources or have diminished access to immunizations relative to their neighbors. However, another possible explanation for the discrepancy is that the parents in these neighborhoods have different beliefs about the value of immunization. Although observation of available resources and the behavior of medical practitioners might help rule out the wrong alternatives, the correct explanation can really only be accessed by taking the time to see from the "native's point of view" (Geertz 1974). Although statistics may be reasonable proxies for what matter, there are also many ways in which statistics can capture aspects of reality but fail to capture the detailed reality of a complex economy or what is most important about a phenomenon under investigation.

Although Lavoie's view of the relevance of these philosophical challenges for the practice of Austrian economics was not universally embraced, it was well-rooted in Austrian tradition. Before the diaspora of Austrian economists during the run up to World War II, Mises, Hayek and other Austrians were integrated into the broader academic life not just in Vienna but in the broader German-language community as well. As such, Mises

and Hayek were well read in what would be later be called continental philosophy (Boettke and Storr 2015; Mises 1957; Lavoie 2011, 117) While the later philosophers on whom Lavoie builds his argument may seem out of place to American Austrians, they are the descendants of the philosophical milieu of the Austrian tradition. By working with these descendants, Lavoie hoped to "reconstruct the philosophical basis for the Austrian School of Economics" (Boettke 2004).

Austrian economists have sometimes been at odds with the broader economics profession in their unwavering insistence on the primacy of theory. While this position has led some to conclude that Mises was anti-empirical, his actual methodological stance is one of methodological dualism (Mises 1957). This is well illustrated by Mario Rizzo (1982), who rationally reconstructs Austrian methodology in terms of Lakatos's methodology of scientific research programs. In Lakatos's framework, scientific re- search programs contain a hard core of laws or axioms that are assumed to be inviolable and serve as a structure around which hypotheses can be tested. Rizzo argues that the concept of apriori praxeological theory within Mises's work is just such a hard core. The apriori components of economic theory, such as the claim that consumers will choose a more preferred over a less preferred bundle, cannot be better understood through empirical testing, but this does not mean that history, statistics, and other empirical investigations are not vitally important to both hypothesis development and testing within the social sciences. Just as the fact the hard core is not being tested by empirical work in the Lakatosian framework does not mean that Lakatos was antiempirical, the fact that praxeology is not tested by empirical work does not mean that Mises is antiempirical.

Rather, Mises and the work of other early Austrians suggested an approach to empirical work that could become more fruitful through a healthy grounding in the significance of the subjectivity of human experience and the inevitability that people process their values and actions through an institutional lens. Although Mises' commitment to methodological individualism has sometimes been interpreted as a commitment to homo economicus, Boettke (1998c, 536) argues that "Man, in Mises' system of thought is… the social animal, born into an already existing intersubjective life-world and socially constituted by this world." This aspect of the Misesian approach as developed by Lavoie points towards a way to engage in applied work that enables the understanding of real-world historical and contemporary phenomena without falling into the traps of scientism (Lemke and Lingenfelter 2017). Chamlee-Wright (2011) presents a convincing case for an ethnographic, field-work based approach to empirical work that is consistent with the Mises/Lavoie position. This will be discussed at greater length in section 5.

In addition to being greatly influenced by Mises, Lavoie can be understood as building on the ideas of two of his teachers: Fritz Machlup and Ludwig Lachmann (Boettke and Storr 2015, xv). Fritz Machlup was a student of Mises in Austria before immigrating to the United States before the war. Of the Austrian émigrés, it was perhaps Machlup who continued to be most integrated in the mainstream of the economics profession. Prior to Rizzo's reconstruction of Misesian economics, Machlup similarly restated points made by Mises in light of changes within the economics profession. In his famous 1955 paper on verification in economics, we can see the realm in which Lavoie would work: "Thus, the fundamental assumptions of economic theory are not subject to a requirement of

independent empirical verification, but instead to a requirement of understandability in the sense in which man can understand the actions of fellowmen" (Machlup 1955, 17).[63]

It is similarly impossible to contextualize Lavoie's work on interpretive economics and its roots in the deeper Austrian tradition without addressing the work of Ludwig Lachmann. Trained in Germany, before spending time at LSE during its heyday as a center of subjectivist thought, Lachmann would push Austrian economics in a more subjectivist direction throughout his career.[64] One way Lachmann pushed American Austrians toward interpretive economics was to connect the Austrian tradition with Weberian social science[65] (Boettke and Storr 2002; Lachmann 1971; Martin 2015, 24). One feature which separates Austrian economists from their mainstream colleagues is an emphasis on verstehen or understanding in an interpretive sense (Lemke and Lingenfelter 2017). This divergence opens Austrian economists to insights from both other social sciences and the humanities. The Weberian connection provides additional heft to an argument for an interpretive Austrian economics and has been seized by Lavoie's students. For instance, Peter Boettke argues that there are both Weberian roots of contemporary Austrian economics and Austrian roots of Weberian sociology (Boettke 1998b; Boettke and Storr 2002). Related to this Weberian connection, the foundational figure in phenomenological sociology, Alfred Schuetz, was connected to the Austrian tradition prior to the diaspora

[63] To which he added a footnote: "Disregard of this requirement is, in my view, the only serious flaw in the otherwise excellent essay (Friedman 1953)" (Machlup 1955, 17 n 42). For more on the relationship between (Machlup 1955) and the Austrian tradition, see: (Rothbard 1957), (Zanotti and Cachanosky 2015), and (Langlois and Koppl 1991).
[64] Like Lavoie later, Lachmann's radicalism would prompt charges of nihilism and historicism. (Lavoie 1986) defends Lachmann by reinterpreting Mises in a Lachmannian light (Prychitko 1994; Storr 2017).
[65] See: Martin 2015, 24.

(Pietrykowski 1996; Prendergast 1986) and has received renewed attention in contemporary Austrian economics (Storr 2010b; Boettke and Koppl 2001; Koppl 1997).

Because critics often tagged McCloskey and Lavoie as being deconstructionists, it may be useful to offer a few more words on the differences between deconstructivism and the hermeneutics Lavoie borrowed from thinkers such as Hans-Georg Gadamer (Schmidt 2006, 160–69). Unlike deconstructivism, which uses textual analysis to show the inherent contradictions within texts as a demonstration of the relative nature of truth, for Gadamer hermeneutics offers a methodological path towards truth. That is, for Gadamer, conversation and interpretation are aimed at the revelation of truth not as demonstration exercises. Similarly, for Lavoie and McCloskey, interpretive methods which take actors points of view seriously are intended to better understand the world. In Lavoie's words, "to say that the scientist's trained intuition is what ultimately guides his or her search for truth is not to say 'Anything Goes.' Rejecting objectivism does not entail embracing relativism" (Lavoie 2011, 100).

3.5 Methodological Opportunities and Challenges

The Science Wars have left those who wish to take the concerns of Austrian economics seriously walking something of a tightrope. To the extent that postmodern and postpositivist challenges critique the idea of universal theory, they call in to question the very existence of the most basic economic concepts, including scarcity, opportunity cost, and the downward-sloping demand curve. However, particularly since economics has become embraced as a universal science of human action in which no domain of human endeavor is off limits, the difficulties of meaning and intersubjective understanding have

become more relevant than ever before. Institutional economics, for example, studies the emergence, function, and purpose of social, political, and economic constraints as human beings understand them to exist—hence, the emphasis in that literature on understanding the de facto rules rather than accepting as a matter of faith that the written rules will be the same as those followed by individuals within the society.

Consequently, the challenge we are faced with is this: how to integrate the postmodern and post-positivist critique in a way that pushes us to a more truthful if more limited understanding of empirical realities without throwing out the interpretive power of economic logic itself. The remainder of this section will explore two ways the Science Wars can push economics to become a better discipline: by improving the quality of our institutional analysis, and by bolstering theory with empirics that are more sophisticated because of their superior interpretive understanding. In addition, we discuss how this project can be pursued without throwing out the significant gains that classical economics has made in illuminating the theoretical principles upon which social organization rests.

3.5.1 Meaningful institutional analysis

The first and in our view most significant opportunity suggested by the postmodern and post-positivist critiques of economics is within the domain of institutional economics. In particular, the hermeneutic practice of seeking to understand the meanings that actors attach to their choices is important to being able to understand the function and performance of institutional arrangements (Lemke and Lingenfelter 2017). This is true both because of the subjective character of rules and because of the fact that the meanings attached to different institutional arrangements can be multiple and intersecting, both

across communities and across the different social roles human beings play in the course of their lives.

Institutional economics pushes us to consider how the laws and other rules enforced within a society shape choice by affecting people's subjective valuations of alternatives. This is significant for the discussion at hand because accuracy in institutional analysis requires incorporating the hermeneutic critiques of Gadamer, Lavoie, and others who have built on their ideas (Boettke 1993; Chamlee-Wright 1997, 2011; Prychitko 1994; Storr 2004; Chamlee-Wright et al. 2015). In other words, the need to understand the meaning that actors attach to their actions is not just a useful way to do institutional analysis, but the only way that the concept of institutions as it has been used in economics can even by consistently understood (Lemke and Lingenfelter 2017).

Although the concept of 'institutions' is notorious for being sloppily defined, the commonality among all of the definitions is the notion of rules that are mutually understood and enforced consistently enough to generate a set of expectations about how others will respond to a particular action. The key phrase here is 'mutually understood.' The mechanism through which rules become meaningful in the decision making processes of individuals is belief. Specifically, the belief that violating a particular rule will result in a particular consequence. Creating a law doesn't automatically guarantee that this belief will follow. There are many reasons why an individual might not believe the law to be genuine, including a lack of trust in governing institutions or a history of de facto law being different from de jure law (Boettke et al. 2008; Ostrom 1990). Further, the belief of a single individual is not enough. In order to generate mutually understood shared expectations,

many people need to hold the belief simultaneously. What this means is that undergirding every institution is a foundation of shared beliefs about not just the particular rule in question, but about the nature of law and the social and political arrangements in play within a community.

There are a number of previously inaccessible areas of inquiry that the social sciences become capable of addressing once both institutional analysis and the study of the meanings that individuals attach to those institutions are permitted a seat at the table. First, we can begin to study situations in which people in the same place physically may be in different places institutionally. If it is acknowledged that institutions are not objectively perceived, but instead can mean different things to different people and communities, then institutional analysis becomes a toolkit through which we can understand the different constraints those institutions can impose on individuals living in neighboring or even overlapping communities. Further, the subjectivism of Austrian economics implies that historical or institutional differences between neighbors will affect their actions through their expectations about how they believe they will be treated (Lachmann 1978 [1956]). This insight creates the opportunity for economics to be used to identify patterns of social interaction that can explain phenomena like segregation and other hierarchical power structures (Lemke 2015, 2018). Incorporating this insight into Austrian political economy will enable scholars to make significant contributions to understanding why divergences in the ways institutions are understood might come to exist, as well as the possibilities for reconciliation and conflict resolution when different understandings co-exist within the same physical space.

3.5.2 Reclaiming empiricism

An additional opportunity that the interpretive turn in economics provides is the ability of economists to reclaim the mantle of empiricism, properly understood as the collection and interpretation of observables that are significant to understanding a phenomenon under investigation. The post-positivist philosophy of science, including the challenges from McCloskey and Lavoie described above, illuminate the sometimes large distinction between data/evidence and the real world they are supposed to present. The most serious harm caused by the uncritical adoption of methods from the natural sciences is that form and method have come to replace understanding. This offers an opportunity for economists who take the elements of the post-modern, post-positivist critique that encourage embracing multiple scientific methods and taking the attempt to understand belief and subjective understandings seriously to engage in empirical study which is ultimately both more rigorous and more useful. Mainstream economics is just one scientific approach. Incorporating additional methods can help scholars better understand the world without abandoning the insights of economic theory (Boettke et al. 2013; Poteete et al. 2010).

The increasing empiricism of economics, especially the increased favor of the top journals in the field toward applied economics, represents an opportunity for scholars in the interpretive tradition. Over the past decade, some of the foremost papers in the field have resulted from wide-scale data collection. One example of a paper which demonstrate the way interpretive economics could contribute to this approach is Anne Case and Angus Deaton's study of mortality in the United States. After years of falling mortality rates, Case

and Deaton document that the aggregate mortality rates increased in recent years due to of an increase in the death rate of middle-aged white non-Hispanics. Further they show this increase was caused by increases in "deaths of despair," i.e. suicide and deaths caused by diseases related to substance abuse. (Case and Deaton 2015). The authors clearly demonstrate patterns in data and allow insight into the magnitude of an important phenomena: "deaths of despair" by geographic area. In doing so, they demonstrate both the ability of large scale data analysis to assess the magnitude and variance of the issue and the inability of the same method to understand the phenomena. The answer to such questions as: "would universal basic income help or harm?" requires an understanding of the thought process of the people involved. Both the generation of hypotheses and the subsequent attempt to understand connections between cause and effect requires some ability to access the beliefs upon which people are basing their subjective valuations of suicide and its alternatives. Adopting an approach that furthers subjectivity and appreciates the limits of the scientific method within the social sciences is an essential step in both understanding the phenomena and assessing policy intended to abate the crisis.

An example of contemporary research in economics that combines traditional and interpretive methods is Lowes and Montero (2021), which examines the impact of the presence of colonial public health campaigns in central Africa on the success of contemporary public health campaigns. In addition to more standard empirical techniques, the authors cite the depiction of the damaging early twentieth century colonial campaigns, which included forced and sometimes deadly medical 'treatment', in contemporary tribal folklore. This hermeneutic sensitivity is what drives the subsequent research and testing.

In taking this approach, the authors are in line with (Storr 2010a, 37) which suggest that interpretive economics "requires that we try to gain insight into how people see their own selves and situations by mining their archives, reading their literature, listening to their folklore and praise songs…" By incorporating additional forms of evidence, economists can both demonstrate the truth of statistical evidence and get to a broader set of questions which often have policy relevance.

Elinor Ostrom and her colleagues at the Ostrom Workshop at Indiana University Bloomington have amassed a body of work that convincingly demonstrates the value of re-thinking empirical research as a project that is going to require the use many and varying scientific methods. An empirical method should be chosen because of how well it matches what one is trying to observe, and no method that can get at relevant information should be discarded simply because it is not as commonly accepted or technically sophisticated as other methods. In the multiple methods formulation, the emphasis on fieldwork and the use of multiple methods is not based on any inherent resistance towards particular empirical methods, but rather by a desire to bring methods in better alignment with the questions being asked in the social sciences and the institutional realities underlying those questions.

3.5.3 Preserving the use of theory

The challenges to the traditional scientific approach raised in the Science Wars create an opportunity to address ways in which traditional approaches to economics have either proven mistaken or unnecessarily limiting. However, an uncritical implementation—or worse, an outright rejection of the scientific tradition in economics—would also be a mistake. Particularly at risk of being lost is the worthy endeavor of seeking out universal

regularities in the patterns underlying observed social outcomes. These laws of economics, like the laws of physics, are the primary source of the insights and predictive power that has made economics a worthwhile field of study. The Austrian school has always been a part of this tradition, and rightly so. The postmodern and postpositivist critiques are a rejection of a unitary scientific method and an assumption of a universality of experiences. They are not, however, a rejection of the universality of the logic of choice under constraints.

Rather, the universal nature of the logic of human choice is why a more open, interpretive approach is necessary. As a methodologically individualistic social science, the objects that economists study are the particular actions of specific individuals. The questions we ask about those 'objects', i.e. actions taken, primarily relate to how they are affected by changes in the relevant constraints. These constraints are generally conceptualized through a cost framework, in which factors like changing preferences, technologies, and resource availabilities determine the relative costs of a path and its alternatives. Further, as emphasized by Buchanan (1999 [1969], 37), when economics is conceived of as a "logical theory of human interaction" rather than as a predictive science, these costs become inseparable from the choices that bring them about. The cost of an action is the totality of that which is sacrificed when one road is chosen rather than another. As such, cost is entirely subjective and exists in the mind of the actor, immeasurable by any objective instrument. Yet, economists regularly engage in empirical work with the intention of seeking to understand the role these costs play in shaping human interaction.

The invisibility of this fundamental component of our subject matter is why investing in attempting to understand subjective experience is worthwhile.

A corollary of this embrace of the universal elements of the human experience is the rejection of explanations that attribute different beliefs to different processes of reasoning. Polylogisms, or theories that presume different people to reason in fundamentally different ways, are dismissed from consideration by this tradition. The most notorious application of this theory historically in the social sciences was in the early twentieth century study of 'racial science', which sought to identify and measure the differences between people of different races, including in values, intelligence, and habits of thought (Gould 1996 [1981]). Although this type of racial science has been rightly condemned as backwards and prejudiced, there are still shadows of its practice in studies that survey or otherwise attempt to measure the attitudes and preferences of different races, national groups, or genders without careful attention to the cause of those differences. There is no way in the social sciences to strip people of their history and experience, measuring only their capabilities and innate characteristics. Instead of assuming that the results of these studies are reasonably accurate measures of people's capabilities, the institutional alternative considers the way that observed decision making is shaped by the differing constraints and beliefs about constraints that have emerged through the differing histories and experiences of these groups.

When engaging with the postmodern critique, there is risk that both proponents and opponents could fall into a strawman of this argument that makes the err of arguing that diversity is important because of these different logics rather than because of the difference

in perspective cultivated from living under an alternative set of constraints. It is the fact that diverse individuals sometimes live under different sets of institutions with different sets of beliefs about those institutions that makes it important to include their perspective in the conversation. It is not solely by virtue of the fact that a person is black or female or a member of the First Persons that their perspective becomes analytically necessary to incorporate in order to meaningfully understand the social world. Instead, it is the fact that the members of these different groups of people are operating within different institutional systems and thereby face systematically different constraints that makes leaving out their perspective a grievous scientific error.

Rules are by their nature invisible, as are beliefs about rules. And again, if it is true that beliefs about rules are the significant factor in determining how people will respond rather than some objective characteristic of those rules, we need access to the evidence on the variation in subjective beliefs about those rules. Given that those beliefs are invisible and unmeasurable with any known instrument, the only option left would seem to be to ask. As social scientists, this is the beginning of the process rather than the end. There are universal laws. Social scientists can do much more than just report the facts. However, it would be irresponsible to ignore important information about institutional variation. There is a risk of incorporating the post-modern and post-positivist critiques in a way that presumes intersubjective understanding to be so difficult that it can't be accomplished at all. As such, the challenge in front of us is to clarify the continued role of theory and its relationship and importance to being able to engage in interpretation.

3.6 Conclusion

The existing status quo within the profession represents a challenge for those interested in interpretive economics. The trend of the profession in recent years has of increasing insularity and a shift in focus away from other social sciences and towards finance/ business. The extent to which articles in the top economics journals cite only other top journals suggests there are significant pockets of isolation even within economics (Fourcade et al. 2015). Despite the fact that one would expect gains from trade to increase as disciplines have become increasingly specialized, there instead seems to be a move toward disciplinary silos, discouraging methodological openness and ultimately hindering the quality of empirical work within the social sciences.

In this environment, one potential downside of a shift towards interpretation and acceptance of post-positivist critiques is that it could result in a further entrenchment of disciplinary divides within a field which is already divided from its academic neighbors. A defining feature of economics has been its relative methodological homogeneity compared to academic neighbors such as political science. This unity has been proposed as a reason why economics has been so successful as a discipline (Lazear 2000). Clearly, as a matter of practical reality, the burden is on those who would argue for methodological diversity and for loosening the grip on what so many consider to be our disciplines' source of strength.

The future role of interpretive economics within the broader field is unclear. One promising opportunity for Austrian economists working in the interpretive tradition is in the method of analytic narratives as a way to demonstrate the empirical power of

interpretive methods. Building on Bates et al. (1998), Leeson and Boettke (2006, 263) argued that:

> The analytical narrative makes the aprioristically deduced pure logic of choice the handmaiden of institutionally focused ethnographic research. Borrowing from sociology and anthropology, economics may employ survey, interview, and participant observe techniques to glean new empirical knowledge from its subjects (the narrative) to be analyzed in light of aprioristic rational choice theory (the analytic), leading to analytically rigorous but institutionally rich examinations.

What is clear is that contemporary interests in poverty, inequality, and mortality posed by such figures as Anne Case, Angus Deaton, and Raj Chetty provide productive starting points for thick interpretive work informed by praxeological theory (Case and Deaton 2015, 2017; Chetty et al. 2014). Applying interpretive economics to questions of interest to the broader profession and academy represents an opportunity to advance economic theory through taking an additional Hayekian step. To adopt the language of (Boettke 1998a), these are black boxes waiting to be opened by interpretive economics.

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BIOGRAPHY

John Kroencke graduated Phi Beta Kappa in Mathematical Economics from Hampden-Sydney College in 2016. He received his Master of Arts in Economics from George Mason University in 2017. From 2020 to 2021, he was a Final Year Fellow at the Center for the History of Political Economy at Duke University.