HISTORY OF ECONOMIC IDEAS

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KNOWLEDGE, MARKETS AND SOCIETY:
DON LAVOIE AND THE REVIVAL
OF AUSTRIAN ECONOMICS*

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Economists, philosophers and historians of science, political philosophers, and cultural and organizational theorists join together with the family, friends, teachers, colleagues, and students of Don Lavoie in mourning his recent – and premature – passing. Lavoie, who was the David H. and Charles G. Koch Chair of Economics in the School of Public Policy at George Mason University, died of cancer on Nov. 6, 2001, at the age of 50.

Lavoie was a key figure in the revival of Austrian economics since the early 1970s. His early work (1985a; 1985b) resulted in an important and timely reinterpretation of the socialist calculation debate. Later he headed a group of Austrian economists who have come to be known as the “market process” or hermeneutic Austrians, helping to build the premier program in Austrian economics at George Mason University (GMU). Lavoie’s work on hermeneutics and economics has importance outside of Austrian economics, for the work on rhetoric, methodology, and philosophy of science in economics and interdisciplinary social science since the early 1980s. In his later years, Lavoie turned his attention to culture and cultural studies, artificial intelligence, and social and organizational learning, creating the Program on Social and Organizational Learning (POSOL) at GMU. As a teacher and graduate supervisor, Lavoie also impacted the profession through the work of his students, especially Peter Boettke, Steven Horwitz, David Prychitko and Emily Chamlee-Wright.

Lavoie first became interested in the socialist calculation debate while an undergraduate computer science major at Worcester Polytechnic Institute in the early seventies. An interest in the limits of artificial intelligence eventually led to a reference to Lange’s claim that advances in computers should once-and-for-all put an end to any critique of economic planning based on calculation problems. This led Lavoie to Mises and

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* My introduction to Austrian economics and interpretive social science benefited greatly from having had the fortune to know Don Lavoie and some of his students, especially Pete Boettke, and study their work. Though not a “card-carrying member” of the Austrian school, I was invited to present my own work and welcomed warmly at Austrian seminars at GMU and NYU, participated together on panels at various professional meetings with Don et al. and have had articles published in Austrian and other heterodox journals that deal with some of the issues raised in this article, sometimes critically (see Forstater 1997; 1999; 2000; 2001; 2005). I found the atmosphere around Don to be intensely and contagiously energetic, enthusiastic, and inspiring, and I feel honored to have known and worked with such a generous spirit.
Hayek, and to the South Royalton Conference in June 1974, where he
became especially excited by Ludwig Lachmann’s challenges to the
audience: to develop a comprehensive critique of neoclassical economics; study
and carefully consider the contributions of authors outside the Austrian
camp (including Keynes!); acknowledge the radical uncertainty of mar-
ket actors’ expectations; and recognize the weaknesses and limits of tra-
ditional Austrian economics and develop it into a powerful paradigm (see
Dolan 1976 for the conference proceedings; Vaughan 1994, pp. 104-110, on
the conference and Lavoie’s reaction). This was also the year that Hayek
was awarded the Nobel Memorial Prize in Economics, which added fur-
ther fuel to the Austrian resurgence (see Boettke and Prychitko 1994b for
an additional account of the revival).

Lavoie thus found himself by-passing a potentially lucrative career in
computer systems analysis to enter the graduate program in economics
at New York University (Lavoie 1985a, p. ix). This coincided with Israel
Kirzner’s founding of the Austrian Economics Program at NYU and the
beginning of a decade of Spring visits by Lachmann to NYU as a visiting
professor. Lavoie wrote a paper on the socialist calculation debate in an
early class in the history of economic thought taken with Kirzner and
eventually wrote his dissertation on the topic. Lavoie’s openness and in-
tellectual diversity are represented in his dissertation committee, which
included not only Austrians like Kirzner, Machlup, and O’Driscoll, but
the Marxist James Becker and the Fabian Socialist Elizabeth Durbin. But
in many ways it may be argued that the key influence remained Lach-
mann, and the lessons learned affected not only research but also the
classroom. Lavoie later spoke of what came to be known as ‘Lachmann’s
Law’ among graduate students, which may be described as reading oth-
ers’ work and listening to other arguments in as generous a way as pos-
ible. A flip side of this kind of generosity towards others is humility about
one’s own work and position. This generosity coupled with humility ac-
curately describes Lavoie’s personal and professional life and has become
a hallmark of the best of the “market process” or hermeneutic Austrian
school.

In 1979, Lavoie was invited by Richard Fink (who also came out of NYU’s
Austrian program) to be part of Rutgers University’s new undergraduate
program in Austrian Economics, which was moved to George Mason
University in 1980 and re-named the Center for the Study of Market Pro-
cesses (CSMP). There can be no doubt as to the derivation of the name of
the program. A quick look at the proceedings of the South Royalton con-
ference will show the term “market process” in the title of papers by Lach-
mann (1976) and Kirzner (1976). For Kirzner, it was the key Austrian alter-
native to the neoclassical notion of equilibrium, and for Lachmann it was
the “central concept of Austrian economics”. Thus the name of GMU’s
program, and Market Process also became the name of an important jour-
nal, for which Lavoie served as editor.

It is difficult to describe the excitement, enthusiasm, and momentum
in and around the CSMP as it transformed from an undergraduate pro-
gram to a major center for graduate research and teaching during the
1980s, but participants have been pretty good about telling the story
(Vaughan 1994; Boettke and Prychitko 1994a, 1994b). A number of impor-
tant dissertations were produced and the intellectual life there was open
but rigorous, thoroughly interdisciplinary, with a strong empirical focus.
Boettke, Horwitz, Prychitko, Chamlee-Wright, and other products of the
graduate program are now recognized names in the fields of comparat-
ive systems, economic methodology, money and banking, history of eco-
nomic thought, and development economics. All were profoundly influ-
cenced and guided by Lavoie, who seems to have created the ideal setting
for a doctoral program and to have been a wonderful mentor and guide.

Lavoie’s 1985 Rivalry and Central Planning has become the modern refer-
ence on the socialist calculation debate, actually reinterpretting the de-
bate so that it is no longer viewed in the same way. The debate was not
about capitalism versus socialism. The debate was about whether neo-
classical economic theory—in the sense of general equilibrium theory—
could be applied to a socialist (planned) economy. Lange and Lerner (and
followers) said yes; Hayek and Mises (and followers) said no. For Hayek
and Mises, neoclassical economic theory could not even be applied to capital-
ism, much less socialism! Equilibrium doesn’t exist. What there is is the mar-
ket process. It is not even accurately described by disequilibrium, although
that notion could be used as a heuristic in a neoclassical audience to try to
get at what the Austrians are trying to convey. But ultimately, equilibri-
um must be abandoned (Boettke, Horwitz and Prychitko 1994b).

After Lavoie, the debate concerned not ‘calculation’, but the ‘knowl-
edge problem’. Perhaps the most important chapter of the two 1985 works
by Lavoie is the appendix to National Economic Planning. There, Lavoie
laid out the importance of Michael Polanyi’s notion of tacit knowledge
for understanding the debate – and for understanding economic and so-
cial life. Some knowledge – such as that embodied in maps, written words,
mathematical formulae, etc. – is explicit (Polanyi 1959, p. 12). This is what
is normally referred to by the word ‘knowledge’, i.e., knowledge that can
be articulated. But Polanyi identifies “tacit knowledge” as “the dominant
principle of all knowledge” that “at all mental levels [is] decisive” (Polan-
yi 1959, pp. 13, 19). Tacit knowledge is “unformulated”; it is “the knowl-
edge we have of something we are in the act of doing” (Polanyi 1959, p.
12). Explicit knowledge can be critically reflected upon, which is an ad-
vantedge it has over tacit knowledge (Polanyi 1959, pp. 15-18). Yet tacit
knowledge concerns discovery, which is the basis for explicit knowledge.

Lavoie used Polanyi’s work to argue that economic planning in the
sense proposed by Lange and Lerner is impossible: “economic rivalry
among competitors in the market generates knowledge that no rival on
his own could have possessed in absence of that rivalry” (Lavoie 1985a, p.
26). This, of course, is what Hayek meant by “competition as a discovery
procedure” (Hayek 1978). For Lavoie, there are three aspects of the “cog-
nitive function of markets” (Lavoie 1990a, p. 74). First, there is the compu-
tational function, for Lavoie the sole function emphasized by Lange et al.
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Second, there is the incentive function, recognized by authors such as Nove to supply a psychological motivation for market participants. But thirdly, and perhaps most importantly for Lavoie, there is the discovery function of markets recognized by Hayek: the market process involves the "creation, discovery, and communication of knowledge," a social learning process that is akin to verbal conversation" and "that by its very nature cannot be centrally directed" (Lavoie 1990a, p. 74). The market, for Lavoie, is "a procedure for the discovery and conveyance of inarticulate knowledge" (Lavoie 1995).

Prices may encapsulate information, but how is this information to be understood by market actors? One gets the impression that, for some Austrians, even Hayek's theory did not satisfactorily answer this question (see, e.g., Ebeling 1986, pp. 43-44). It was to answer this question that some Austrians, including Lavoie, turned to hermeneutics. This group rejected both the idea that market participants have immediate access to an objective reality and the "traditional claims of apodictically certain (and value free) theory, developed through strict deduction from self-evident axioms" (Boettke and Pritchko 1994c, pp. 291-292). As one observer has put it, the "rescue" of Austrian economics required that it be set on different epistemological pilings (Prendergast 1986, p. 4).

In applying hermeneutics (and phenomenology) to economics, this group — inspired by Lachmann and led by Lavoie — not only addressed some significant weaknesses in Austrian economics, but also added a previously neglected trail in "interpretive economics" generally. Much of the work on rhetoric and methodology in economics has been conducted at the meta-methodological level (cf. Pietrzykowski, 1994). Until recently, for example, McCloskey has focused almost exclusively on the rhetoric of economics and economists, with little attention given to the rhetoric of the economy and economic agents, a focus also characteristic of many others who have joined in, following McCloskey's lead. The "rhetoric of economics" (McCloskey 1985) has been concerned with texts. Lavoie and other hermeneutic Austrians were exceptional in their analyses of how Lavoie called "agent level" communicative processes: "treating human actions as 'texts' to be read and interpreted, and investigating 'how agents come to understand one another', as well as economic phenomena such as price movements (Lavoie 1990b, pp. 360). Whereas in traditional neoclassical models, market coordination has often seemed to result from 'assuming away the difficulties', what makes the Austrian program much bold is the attempt to explain 'spontaneous order' even while rejecting such standard assumptions as perfect information, perfect competition, and perfect foresight.

The dilemma that Lavoie and his comrades took up is the classical liberal one of 'freedom and order': how is individual freedom of choices compatible with social order? The problem is not such a difficult one in the standard neoclassical models because there motivations and behaviors are conflated, or what amounts to the same thing, there is assumed to be a one-to-one correspondence between them. Economic agents are treated as the units of analysis in the physical sciences, that is, as insensi-

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tive particles moving blindly though lawfully to blind stimuli" (Lowe 1977 [1965], p. 61). The hermeneutic Austrians, on the other hand, rejected such a framework, and instead acknowledged the fundamental phenomenological insight that a single motivation may result in different, even diametrically opposed behaviors, while different motivations may result in the same behavior (Aron 1964). Under such conditions, how can freedom of individual choices be presumed to result in regular, reliable behavioral patterns necessary for societal order?

The answer, urged Lachmann, was to be found in Alfred Schutz's phenomenological sociology (Lachmann 1971). The Schutzian 'solution' to the problem of social order is rooted in ideal-type methodology (Koppl 1994). Though our "knowledge remains incoherent, our propositions occasional, our future uncertain, our general situation unstable" (Schutz 1970 [1943], p. 108), the potentially socially disruptive and 'disorderly' results of such a state of affairs are prevented by the "fortuitous circumstance" that individuals are "born into an ongoing social world already containing structures of intersubjective meaning which all that culture and society share in common" (Ebeling 1986, p. 47; original emphasis).

From early on in childhood, individuals learn the socially prescribed ideal types and social recipes that enable them to act in the social world. In any situation, there is "an assumption that I may under typically similar circumstances act in a way typically similar to that in which I acted before in order to bring about a typically similar state of affairs" (Schutz 1967 [1933], p. 20). Socioeconomic order is thus maintained as a result of economic agents' use of these models for rational action, or social recipes based on typifications. Lavoie, along with Ebeling, were the two students of Lachmann who took this lead and plunged into the study of phenomenology, hermeneutics, and other interpretive approaches, including the works of Schutz, Gadamer, Ricouer, Charles Taylor, and others, and applied them to economics (see, e.g., Lavoie, 1986; 1990b; 1990c; 1994a; 1994b; 1994c). At GMU, Lavoie organized a study group called the "Society for Interpretive Economics", in which Boettke, Horwitz, Pritchko and others participated, resulting in a number of conferences, dissertations, articles and books developing and applying the emerging hermeneutic Austrian approach, also sparking some controversy within the broader Austrian school (see, e.g., Rothbard 1989).

By the early 1990s, Lavoie was increasingly turning attention to the task of "relating ideas from software engineering to market process economics" (Lavoie 1994a, p. xi). This development led to the CSMP moving out of the Economics Department at GMU, and establishing a new department in 1992 called the Program on Social and Organizational Learning (POSOL), which involved the Economics Department, the Institute of Public Policy, the Sociology and Anthropology Department, and the Cultural Studies Program. Rejecting neoclassical equilibrium and game theoretic modeling, Lavoie, et al. turned to the artificial intelligence and evolutionary biology literatures to study social learning and "dynamic
processes which cannot be said to equilibrate, even though they clearly exhibit order” (Lavoie 1994d, p. 550). Applying these lessons to an evolving Austrian approach to economics, the group began experimenting with simulations of market processes in computational systems, for example criticisms that the Austrian rejection of equilibrium implies complete randomness. Lavoie and his colleagues and students believe that this may be a useful approach to the study of spontaneous orders and economic agents that not only maximize, but learn, discover, and create.

Lavoie and the POSOL group also began investigating the relevance of cultural studies for economics and the relation of culture and entrepreneurship, as well as the implications for radically libertarian politics (Lavoie 1993, 1994a; Lavoie and Chamlee-Wright 2000). Lavoie proposed that the other’s subject matter, and that both fail to recognize or under-emphasize the way in which markets are an integral part of culture under capitalism. Noting that much of the work in Cultural Studies often takes a critical view of markets, he opposed the portrayal of market activity as soley concerned with cold-blooded calculation, and attempted to highlight markets as “meaningful domains of human activity” involving “the human spirit, personal expression ... [and] moral commitments” (Lavoie and Chamlee-Wright 2000, p. 2). Lavoie reiterated his earlier call for a more ethnographic and anthropological approach to the empirical study of markets and culture, focusing in particular on different forms of entrepreneurship. In this work as elsewhere, Lavoie showed himself to be a philosophically consistent libertarian - liberal (in the Classical sense) not only with regard to economic issues, but on social and political issues as well.

Don Lavoie was a key figure in the revival of Austrian economics in the last quarter of the twentieth century. But his contributions transcend both the Austrian paradigm and the economics discipline. His approach was truly interdisciplinary, and his style was open and non-dogmatic. Lavoie balanced and integrated his research and teaching, displaying the highest standards in both. His commitment to policy-relevant social science was unwavering and he has left a lasting record of achievement in the form of his scholarship, the programs he helped build at GMU, and the students he mentored and supervised. Lavoie’s influence inside and outside the discipline of economics has been considerable, and he will be sorely missed.

References

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