Journal of the History of Economic Thought,
Volume 27, Number 4, December 2005

RICHARD A. MUSGRAVE AND LUDWIG VON MISES: TWO CASES OF EMIGRÈ ECONOMISTS IN AMERICA

BY
LAURENCE S. MOSS

I. INTRODUCTION

The expulsion of the academicians from Germany, Austria, and other central European countries is for the history of social science as traumatic and significant an event as the bombing of Pearl Harbor was for the United States' naval fleet in the South Pacific. The Restoration of the Civil Service Act occurred on April 7, 1933, shortly after the National Socialists came to power. It ordered "disagreeable" persons to leave the Universities and was the harbinger of other "cleansing" that followed the German war machine into Austria, the Czech Republic, and so on. The start of this intellectual exodus occurred a whole eight years before the United States entered the war on December 7, 1941. The destruction of the American naval fleet by the Japanese air force in 1941 required a massive State-sponsored mobilization as the United States prepared for and entered the war in the Pacific. The destruction of social science in the German-speaking Universities started on April 7, 1933, and continued as the German armies moved eastward, resulting in no less than 328 dislocated economists who emigrated out of central and eastern Europe to rebuild their lives and academic reputations in other places, especially in the United States. As Hagemann has demonstrated, the United States "was the direct or indirect destination for some two-thirds of the German-speaking emigré economists" (Hagemann 2005). This "rebuilding" of lives, families, and scientific reputations is amazing in its magnitude and complexity and is also itself a topic for serious study and understanding within the sociology of the social sciences. Hagemann has made major contributions to the telling of this story (Hagemann 1997).

I submit that it is not correct to argue that what the German-speaking territories lost in contributions to the social sciences, the United States gained. Things were never that plain or the history of social science so linear. Creativity and accomplishment in the sciences involved the restructuring of teams of scientists and the realignment

Babson College, MA, USA. E-mail: lmoss@aol.com. This is an edited version of oral comments I presented on January 8, 2000 at the Allied Social Sciences meeting in Boston, Massachusetts as part of the joint HES-ASSA meetings.

ISSN 1042-7716 print; ISSN 1469-9656 online/05/040443-8 © 2005 The History of Economics Society
DOI: 10.1080/10427710500370273

of loyalties and energies. The impact of these migrations cannot be measured in terms of simple arithmetic. This reshuffling of men, women, and reputations is not equivalent to east European gold or master art treasures. Those who left, left behind their libraries, their research networks, and their manuscripts and there were many reports of National Socialist confiscations of research property which were then shipped eastwards into Europe for analysis and safe-keeping.

Those people who ended up in foreign lands had to master a new language and in many cases qualify for additional academic degrees. Hagemann writes about a "fertile crossing of traditions" as well-established patterns of thought in European social science took root again in the English speaking theaters of academic learning and research. I shall consider two episodes where this happened (both mentioned by Hagemann) but suggest that in some ways the loss to German-language social sciences was not an unqualified gain in English-speaking circles. The crossing of traditions is an extremely complex matter and is not itself governed by any rules or simple statistical regularities. I am afraid that the best that can be done is a case by case analysis. But these investigations are not without some intriguing surprises, as I shall show.

The first case study involves Richard Musgrave, who brought a modernized and very eclectic version of *Finanzwissenschaft* to America. It took root immediately because of the fertile ground left by earlier American tax theorists such as E. A. J. Seligman of Columbia University who studied in Germany and adopted aspects of the same tradition that can be found in Musgrave's work. Musgrave's towering influence had the surprising and (in my opinion) unfortunate effect of retarding the home-grown American "public choice school" from flowering and receiving the attention that it deserved. It may also have forced the public choice school to work even harder for the recognition it deserved.

The second case study involves the transplantation of the Mises seminar from his chambers in the Austrian civil service building to the classrooms at New York University in Manhattan. The removal and reorganization of the Mises seminar changed the issues discussed but not the overall "look and feel" of the academic experience, as I shall explain below.

II. THE CASE OF RICHARD A. MUSGRAVE

Hagemann argues that emigre Richard A. Musgrave, who graduated the University of Heidelberg in 1933 and emigrated to Harvard University in Boston for his Ph.D. (earned in 1937), was one of the most successful of the emigre economists. Indeed, we must agree with Hagemann that Musgrave's merger of the longstanding *Finanzwissenschaft* tradition in German-language economics with the then-emerging call for Keynesian budget deficits to stabilize the macroeconomy was extraordinarily successful. His division of the subject of public finance into three areas of research: (1) the efficient provision of public goods; (2) the economics of income and wealth redistribution; and (3) (Keynesian) fiscal finance to stablilize the economy has been widely praised. Hagemann is not alone in concluding that "Musgrave's work is an outstanding example of a fertile crossing of traditions, and is not untypical for the group of emigré economists at the borderline between the first and the second generation—old enough to have acquired academic degrees in Germany and Austria but young enough to continue the studies in the UK or the U.S. and to be open to the integration and development of new ideas" (Hagemann 2005, p. 415). His text, *Public Finance in Theory and Practice* (coauthored with his wife Peggy B. Musgrave), went through four editions (1973, 1976, 1980, and 1984) and helped give shape to the modern approach to this field.

Musgrave's achievements have not been enthusiastically received in all circles. Certain members of the Virginia school in public choice economics—a group that celebrates the achievement of 1986 Nobel prize winner James M. Buchanan and his colleague and coauthor Gordon Tullock—at one time identified Musgrave's text as an obstacle that prevented their key ideas and doctrines from entering the mainstream of economic teaching. I have a vivid memory of an uncomfortable encounter at one professional association meeting in the 1980s, in which members of the "Virginia school" questioned Musgrave about his famous text and why it did not pay more attention to the Virginia school's "exchange theory" of public institutions.

If the Nobel Prize in economics is any measure of the fecundity of an academic tradition, then it may be said that Musgrave's success as a textbook writer and architect of curriculum in America retarded the advent of an important and alternative tradition in fiscal economics. This alternative tradition, according to James M. Buchanan, owes its roots in America to the anti-statist tradition based on the distrust of big government. This United States homegrown tradition emphasizes the need to create institutions that limit the power of the nation state by adjusting the very "rules of the game" in which political choices are made. One would think that given his earlier appreciation of the exchange tradition in public economics (Musgrave 1959) and his experiences as a young man in Nazi Germany, Musgrave would have been keenly skeptical of modeling economic man in any other way than self-interested and self-seeking. But this is not the R. Musgrave that comes across in the textbook or in recent debates, who writes of "merit goods" that people produce when they shed their narrow interests by engaging in public service (Musgrave and Musgrave 1973, p. 512; Buchanan and Musgrave 1999, p. 95).

Indeed, the emigre Musgrave is surprisingly trustful of the state to provide those needed public goods efficiently and to redistribute earned income according to ethical principle and not greed. The artifices of lobbyists and "rent seeking" interest groups are alluded to but not made the center of any sustained analysis. In a recent lecture, R. Musgrave was quite explicit about his view of the State. He admitted, "I think of the state as an association of individuals, engaged in a cooperative venture, formed to resolve problems of social coexistence and to do so in a democratic and fair fashion. The State, in short, is a contractarian venture, based on and reflecting the shared concerns of its individual members" (Buchanan and Musgrave 1999, p. 31). Unlike the Virginia school, Musgrave rejects the "analogy to individuals, engaged in maximizing their self-interests in the market" as appropriate to the study of fiscal economics (Buchanan and Musgrave 1999, p. 32).

While selected publications of Buchanan and Tullock (especially several 1960s articles limited to the clarification of technical issues in economics) are mentioned in several places in R. Musgrave's major text, the overall vision of the Virgina school and the importance of designing institutions behind a "veil of ignorance" is entirely overlooked.

During the 1970s when the first edition of the Musgraves' text appeared, the Keynesian model was coming under increasing attack, especially for the mounting "deficits" that James Buchanan was convinced were damaging to the economy and predicted would get much worse in the decade ahead. *Democracy in Deficit* appeared in 1977. It was coauthored with Richard Wagner. Here Buchanan and Wagner explained that so long as politicians are responsive to constituents—that is, so long as modern democracy works in the way most economists applaud—budget deficits will mount. Politicians buy votes when they spend and lose votes when they tax. This, in a nutshell, points to a "procedural flaw" in ordinary politics that can be "corrected by the imposition of constitutional constraints" (Buchanan 1992, p. 104; Buchanan and Wagner 1977). The Musgraves' text moved to a different drummer and the 1970s and 1980s moved on, largely ignoring the insights of the Virginia school economics and repeating in whole sections the increasingly discredited ideas of the simple Keynesian model.

Indeed, what all of this adds up to is that the emigration of Richard Musgrave to the United States may have had the unintended and unfortunate effect of misdirecting attention away from the valuable "Virginia school" contribution, a tradition not without its own European roots but considerably more skeptical of government management of an economic system. A case could be made (and I take credit here for only pointing out the possibility) that the Musgraves' success was the Virginia school's nemesis.

III. THE CASE OF LUDWIG VON MISES

In his paper, Hagemann offers a second example of the transplantation of something valuable from German-speaking central Europe to the United States. He points to the Mises seminar at New York University that lasted roughly from 1945 to 1969. This seminar "kept the character of the 'private seminar' [that Mises] had run in Vienna from 1920 to 1934" (Hagemann, 2005, p. 416). I ask here whether certain features of the older "private seminar" were really worth preserving at all.

As someone who attended Mises's graduate seminars at New York University during the 1960s (although only on a voluntary basis since I was matriculated in the undergraduate program at Queens College of the City University of New York), I learned much about the "character" of this seminar firsthand.[1]

Here was a German-speaking economist who had moved to Switzerland and later to the United States and who would have most certainly be sent to prison, if not murdered, by the National Socialists. Not at all satisfied with the few teaching jobs he was offered, Mises preferred to teach an evening seminar at New York University's business school (with his modest stipend provided to New York University from an outside foundation). In this seminar and in his books, Mises explained how a market economy coupled with a strong and protected property rights structure, fiscal prudence in the form of a gold-exchange standard, and a legal system that respects creditor rights could and would lead to immediate and lasting gains in living standards while systems of active government intervention such as Keynes

[1] Earlier Mises seminar participants include David Grant, George Reisman, Murray N. Rothbard, and Israel Kirzner. Their accounts and personal recollections of this seminar should also be consulted since they are apt to differ fundamentally from the one I offer here.

recommended or the Soviets pioneered would lead to poverty, misery, and war. According to Mises, it was either the unfettered market system or poverty and slavery; there was no "middle way" in political and economic life.

It was not the Virginia school tradition but it was close. Mises's seminar did not explore the application of orthodox economic analysis to the behavior of politicians and political parties who in some sense were the "bad guys" in the story he told. Mises did warn of the abuses of special interest groups in democratic settings. I remember that labor union "thugs" and those economists willing to sacrifice free open trade and the gold-coin standard for Keynesian nostrums and government jobs were also frequent targets of attack. It was a graduate seminar in which the importance of "value free" social science was mentioned but sometimes forgotten. The publication of Mises's major synthesizing work (written now in English) under the compelling title *Human Action* was an inspiring event in 1949 and remains one of the great works in political economy down to this day.

But the atmosphere of the Mises seminar did not produce an open and free discussion. It did not send off armies of young scholars to the professional meetings to mesh older habits of reasoning with new insights and tools for analysis. In many ways it remained a protest seminar where Keynes and his students were the "enemies" in our midst and mathematical economics and econometrics were pushing wrongheaded avenues of research, and crowding out what Mises termed "modern economics."

There was a hagiographic quality to the seminar, at least during the years when I attended in the mid-1960s. I discovered three categories of seminar participants. First, there were the occasional graduate students who needed the credits in order to obtain their degrees. They would ask specific questions about current monetary or fiscal policies, suggesting an affinity for Keynesian nostrums, and would speedily receive icy cold stares from the second category, diehards participating in that seminar. The diehards were a motley collection of Mises's friends, protectors, and benefactors. They formed a physical protective belt around Mises and stared down all who would dare to question or disbelieve. Mises was fortunate to have this type of help in his senior years. They helped him to and from the downtown classroom in a city where the winters were severe and it often snowed. They maintained personal and private relationships with the great teacher and his talented wife Mrs. Margot Mises and in all respects adored him. One of the most scholarly, Mrs. Bettina Bien Graves, became Mises's literary executor and never renounced her surviving commitment to protect the great economist and his teachings from all heretics who might distort his teachings, even in a well-meaning effort to improve upon them.

Finally, there were the few students who would in different ways break new ground. Names such as George Reisman, Israel Kirzner, and Murray Rothbard immediately come to mind. Of those who attended the seminars only a smattering wrote dissertations under Mises's direction. Their scholarly work speaks for itself and it is not my place here to comment on their work. The point I wish to make about this heterogeneous mixture of the prophet and his apostles is that it brought to America an awful siege mentality.

In Mises's *Notes and Recollections* (published in 1978 by the Libertarian Press), Mises reflected on his *Privatseminar* that met in his office at the Austrian Chamber of Commerce starting in October of 1920 and winding up each year in June. The seminar was not just about economics, narrowly defined. According to Mises, "we informally discussed all important problems of economics, social philosophy, sociology, logic, and the epistemology of the science of human action" (Mises 1978, p. 97). Mises explained that his seminar had no official connection to the University of Vienna and in fact functioned more like a safe haven where intellectuals could gather and discuss the great social scientific issues of the time. The seminar was needed because economic studies at the University of Vienna had fallen on hard times. Many of the renowned names in the social sciences attended, including Fritz Machlup and Felix Kaufmann.

I shall be brief because Mises's account is available in print. Apparently, after Wieser's retirement from Vienna in 1923, the three professorships of economics [at the University of Vienna] were held by Othmar Spann, Hans Mayer, and Count Ferdinand Degenfeld-Schonburg. Spann was incompetent and "barely knew modern economics." He preached instead an early form of national socialist doctrine. Mayer, who did understand Wieser, had the saving grace of being able to do some scientific work but he was too busy chasing after power and prestige and attacking Mises. There was an even more serious charge against him. If Mayer learned that a student was interested in Mises by a slip of the tongue in class, Mayer would punish that student. According to Mises, both Spann and Mayer were "jealous of [Mises's] success" and therefore tried to stamp out any vestige of Mises's influence in economics among the young. The third chair holder at Vienna, Count Degenfeld, "did not have the slightest notion of the problems of economics" (Mises 1978, p. 94). And so the *Privatseminar* participants had to sneak around after hours and slip down to the Austrian Chamber of Commerce in order to study modern economics with the master economist.

Other institutions of economic life, such as the Economic Society in Vienna, had no choice but to name the powerful boss Hans Mayer their president. Indeed, it was Hans Mayer who on March 19, 1938, acted dutifully under the new law Germany imposed on Austria after the Anschluss by ordering that all "non-Aryan members" of the Economic Society had to leave it. According to Mises, this was the last that was heard of the Economic Society. Mises himself emigrated to Switzerland and later the United States, and therefore he escaped arrest by the German army. His personal library and papers were seized by the Germans, boxed, and crated away to the Eastern front, where they were later seized again by the Russian army and have only recently been rediscovered.

What Mises brought to America in addition to his brilliant rendition of Austrian school economics was this same siege mentality, but this time the enemies were more imagined than real. They included not only the holders of the University chairs at the colleges and universities in America who professed a belief in socialism or Keynesian interventionism but also those who supported trade union monopolies and agitated for inflationary monetary reforms. This siege mentality allowed Mises to dismiss so many of his older Vienna admirers whose visions of modern economic policy differed in not such important ways from his own. Mises's refusal to deal with the outside world of academic economists must have alienated many professors who were once closer to him in outlook and ideology. Great leaders in the profession such as Fritz Machlup, Gottfried Haberler, and Friedrich A. Hayek lost contact with the older Austrian master for prolonged periods of time. Mises could not tolerate deviations from his fundamental teachings, which included an unvarying commitment to the gold exchange standard in its most orthodox form.

The siege mentality survived Mises's death and was carried to even greater heights by the Rothbard circle, which met in Rothbard's apartment, often in the wee hours of the morning (see Vaughn 1994). Rothbard was one of the great teachers of economics and political philosophy in New York City. At New York University, on the other hand, Mises's gifted student Israel Kirzner explored economic ideas with relentless logic and ignored or at least minimized that paranoia. The 1970s were a new age. The Keynesian orthodoxy began to crack and orthodox economics came under attack from many directions. This was the time when not only the Virginia school was able to make dramatic strides but the New York University Austrian seminar came of age, achieving new directions with the migration of Ludwig Lachmann, an emigré from Germany to South Africa but who at that time was an occasional visiting lecturer at New York University (Boehm et al. 2000). The success of the Lachmann-Kirzner collaboration has recently been documented in *The American Journal of Economics and Sociology* but the style of economics that emerged departed from Mises's approaches in many important ways.

IV. CONCLUSION

My conclusion is that the emigré economists made important contributions to economics but their influence took a myriad of forms and shapes. Yes, the German-speaking loss was enormous but the German loss did not automatically equal the English-language gain. The migration of ideas, attitudes, and schools of thoughts is much more complicated and interesting than a simple zero-sum calculation. In R. Musgrave's case his celebrated organization of a whole field of research may have retarded a more homegrown and precient Virginia school tradition. In Mises's case, the transplantation of the Vienna seminar to New York also involved transplanting the paranoia and siege mentality that Mises articulated in his recollections about his home city of Vienna during the 1920s. As a veteran observer, I personally do not think that the siege mentality was useful, especially into the late 1960s and 1970s when criticism against simple-minded Keynesian ideas once again became fashionable; it functioned to marginalize Mises and his teachings. This may have been counterproductive, slowing the transmission of the Austrian school to America.

The story that needs to be told is a difficult one and must vary greatly in each case. According to Hagemann there were 328 transplants; with this discussion, there are 326 other stories that remain to be told. Each case must be managed and studied somewhat independently of the next. Hagemann has laid the important foundation for these studies. Those interested in American economic thought and the migration of traditions of thought in the social sciences have their work cut out for them for decades ahead.

REFERENCES

Blaug, M. (1999) *Who's Who in Economics*, 3rd edition (Cheltenham: Edward Elgar).

Boehm, S., Kirzner, I., Koppl, R., Lavoie, D., Lewin, P., Torr, C. and Moss, L. S. (2000) Remembrance and Appreciation Roundtable [on] Professor Ludwig M. Lachmann (1906–1990): Scholar Teacher, and Austrian School Critic of Late Classical Formalism in Economics, *The American Journal of Economics and Sociology*, 59(July), pp. 367–417.

Buchanan, J. M. (1992) *Better Than Plowing and Other Personal Essays* (Chicago, IL: University of Chicago Press).

Buchanan, J. M. and Wagner, R. E. (1977) *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press).

Buchanan, J. M. and Musgrave, R. A. (1999) *Public Finance and Public Choice: Two Contrasting Visions of the State* (Cambridge, MA: MIT Press).

Hagemann, H. (1997) *Zur deutschsprachigen wirtschaftswissenschaftlichen Emigration nach1933* (Marburg: Metropolis-Verlag).

Hagemann, H. (2005) Emigré Economists in America: Their Impact and their Experiences (MS presented at the Allied Social Science Associations meetings in Boston on January 8, 2000).

Moss, L. S. (Ed.) (1976) *The Economics of Ludwig von Mises: Towards a Critical Reappraisal* (Mission, KS: Sheed and Ward, Inc.).

von Mises, L. (1949) *Human Action: A Treatise on Economics* (Auburn, AL: Ludwig von Mises Institute, 1998).

von Mises, L. (1978) *Notes and Recollections* (South Holland, IL: Libertarian Press).

Musgrave, R. A. (1959) *The Theory of Public Finance* (New York: McGraw Hill).

Musgrave, R. A. (1997) Crossing Traditions, in: H. Hagemann (Ed.) *Zur deutschsprachigen wirtschafts-wissenschaftlichen Emigration nach 1933* (Marburg, Germany: Metropolis-Verlag).

Musgrave, R. A. and Musgrave, P. B. (1973) *Public Finance in Theory and Practice* (New York: McGraw Hill, 1984)

Vaughn, K. I. (1994) *Austrian Economics in America: The Migration of a Tradition* (Cambridge: Cambridge University Press).