The Review of Austrian Economics (2020) 33:69–85
https://doi.org/10.1007/s11138-019-00440-5

The Austrian School of Economics: A view from London

Peter J. Boettke[1] · Rosolino A. Candela[2]

Published online: 13 March 2019

Abstract
This paper explores the intellectual context of the Department of Economics at the London School of Economics and Political Science (LSE) during the 1930s. We will be focusing on the contributions of F.A. Hayek, along with Lionel Robbins, in fostering an intellectual environment for the transmission and incorporation of Austrian economics, particularly the works of Ludwig von Mises. In doing so we illustrate that Hayek and Robbins were attempting to craft a unified tradition of economic theory that consisted of various strands of economic thought that had either contributed to, or were consistent with, the Austrian tradition. The work done by Hayek, as well as Robbins, at the LSE not only consolidated the ideas of the Austrian tradition that had developed from Vienna. In doing so, they also rearticulated the broader theoretical contributions of classical political economy as a counterweight against an emerging neoclassical and Keynesian paradigm.

Keywords F.A. Hayek · Lionel Robbins · London School of Economics

JEL classification B25 · B31 · B53

1 Introduction

The London School of Economics and Political Science (LSE) of the 1930s had a particularly special role in the evolution of economic theory and in preserving the

✉ Rosolino A. Candela
rosolino_candela@brown.edu

Peter J. Boettke
pboettke@gmu.edu

1 Department of Economics, George Mason University, MSN 1A1, Fairfax, VA 22030, USA

2 F.A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics, Mercatus Center, Buchanan Hall D123, PPE 1A1, Fairfax, VA 22030, USA

economic principles inherited from classical political economy. Not only did it become the intellectual center for consolidating neoclassical economics into a unified economic theory.[1] It would also later prove to be the staging ground for the creation of various new schools of economic thought, which can trace their origins back to the LSE. For example, the development of the Austrian business cycle theory and the maturation of the market-process approach to economics by F.A. Hayek, the development of transaction-cost economics under Ronald Coase, and the pioneering of mechanism design theory by Leonid Hurwicz, all took place during their time at the LSE. Hayek, Coase, and Hurwicz would each be awarded the Nobel Prize in Economics in 1974, 1991, and 2007, respectively, for their contributions.

For the purposes of the paper, however, we will be focusing on the contributions of F.A. Hayek, along with Lionel Robbins, in fostering an intellectual environment for the transmission and incorporation of Austrian economics, particularly the works of Ludwig von Mises, into a unified tradition of economic theory that consisted of various strands of economic thought that had either contributed to or were consistent with the Austrian tradition. The work done by Hayek, as well as Robbins, at the LSE not only consolidated the ideas of the Austrian tradition[2] that had developed from Vienna. In doing so, they also rearticulated the broader theoretical contributions of classical political economy as a counterweight against an emerging neoclassical and Keynesian paradigm.

By contextualizing what would prove to be the flowering of a "Golden Era" at the LSE of the 1930s, our paper develops a relatively neglected link in the migration of the Austrian tradition from its Viennese roots to America. According to Erwin Dekker, the primary contribution of the Austrians in Vienna, or the "Viennese students of civilization" as he dubs them, was "to show us the power of the forces of society that work to our benefits. Language, markets and laws all make human interaction possible and mutually beneficial, and it is for this reason that Hayek argues that we should 'marvel' at the workings of the market" (Dekker 2016a: 128; see also Dekker 2016b). Given the collapse of the Habsburgs and the rise of fascism in Austria, the context of the Viennese period was one of concern for the decline of civilization and the preservation of those institutions integral to liberalism, economic calculation, and social cooperation under the division of labor, which include private property and freedom of contract under the rule of law. By the time the Austrian tradition had migrated to America, the emphasis that

[1] In *Epistemological Problems of Economics*, Mises remarked the following: "Within modern subjectivist economics it has become customary to distinguish several schools. We usually speak of the Austrian and the Anglo-American Schools and the School of Lausanne. . . . [The fact is] that these three schools of thought differ only in their mode of expressing the same fundamental idea and that they are divided more by their terminology and by peculiarities of presentation than by the substance of their teachings" (1933 [2013]: 194). Interestingly enough, Chicago economist Jacob Viner, who also had a profound influence on Robbins (see O'Brien 1988: 12, 45) stated the same thing: "Neoclassical economics is a sympathetic evolution of the English Classical School. Included under neoclassical economics is the English-American version in Taussig and Marshall and also the Austrian school, whose differences are not as important as the resemblances to the Anglo-American type. Included also is the Continental Equilibrium School or the Mathematical School, such as Walras, Pareto, and their followers. They have much more in common with the neoclassicists than in dispute" (Viner 2013: 19; see also Boettke and Candela 2017).

[2] It is worth noting here that Ludwig Lachmann's work on capital theory can also be traced to his years as a student of Hayek at the LSE (1933–1940).

had come to define the Austrian economics included not only radical subjectivism and the role of expectations, but also the notion of the market as a process of entrepreneurial discovery (see Vaughn 1994).

In between these periods, Hayek would become the most well-known and leading Austrian at the LSE. Along with Lionel Robbins, their mutually-held inspiration was to explicate the trade cycle theory advanced by Mises as well as render explicit the theoretical implications of the Misesian critique of economic calculation under socialism. Directly and indirectly, the research questions to which that many students and faculty of the LSE, including Abba Lerner, Ronald Coase, and Leonid Hurwicz, had been drawn were motivated by Mises's critique of economic calculation under socialism in his 1920 article, "Economic Calculation in the Socialist Commonwealth" (1920 [1975]). In particular, rendering explicit what Mises had left implicit in his work generated not only a research program that would be advanced by Hayek and Robbins. This joint research program also became an effort to consolidate the lessons of classical political economy and early neoclassical economics, particularly methodological subjectivism, into a unified economic theory. The inspiration that Hayek drew from Mises can be best summarized as follows:

> The whole trade-cycle theory rested on the idea that prices determined the direction of production. You had, at the same time, the whole discussion of anticipations. I found out that the whole Mises argument about calculation really ultimately rested on the same idea, and that drove me to the '37 article, which then became the systematic basis of my further development (1978 [1983]: 383).

The immediate lessons of the socialist calculation debate, as well as Hayek's macroeconomic debate against Keynes, illustrated to Hayek and Robbins a larger and more fundamental agenda. This became a scholarly effort to remedy a particular deficiency of interpretation regarding the lessons of economics going back to Adam Smith. What emerged after the 1920s, as exemplified in Keynes' "The End of Laissez-Faire" (1926), was the misconception that Adam Smith's invisible hand and the "system of natural liberty" always generated beneficial outcomes independent of any institutional context. But as Robbins further writes:

> [T]he English Classical Economists never conceived the system of economic freedom as arising *in vacuo* or functioning in a system of law and order so simple and so minimal as to be capable of being written down on a limited table of stone (or a revolutionary handbill) and restricted to the functions of the night watchman. Nothing less than the whole complex of the Benthamite codes – Civil, Penal and Constitutional – was an adequate framework for their system (emphasis original, 1952 [1965]: 188)

Moreover, Hayek emphasized a similar point:

> There can be no doubt that after Bentham's early distinction between the *agenda* and the *non-agenda* of government, the classical writers very much neglected the positive part of the task and thereby allowed the impression to gain ground that *laissez-faire* was their ultimate and only conclusion – a conclusion which, of

> course, would have been invalidated by the demonstration that, in any single case, State action was useful. To remedy this deficiency must be one of the main tasks of the future (emphasis original, Hayek 1933: 134).

Throughout the 1930s, Hayek, along with Robbins, sought to render explicit the *epistemic* function of liberal institutions, such as private property and freedom of contract under the rule of law, in facilitating the coordination of an infinite number of individual ends without deliberate command via the price system (Boettke 2018).

Therefore, it was an immediate concern with the attacks made by Institutionalists and Historicists on one side and the Cambridge economists on the other, particularly Keynes, which drew Hayek and Robbins into establishing a unified tradition in economic theory, within which the Austrian tradition represented the analytical core. As a *by-product* of their theoretical analysis, their broader goal was to use the technical principles of economic theory to emphasize the institutional arrangements necessary to preserving Western civilization, as had been emphasized by classical political economy.

2 Preparing the ground for an Austrian migration: Edwin Cannan and the LSE

In 1895, the creators of Fabian Socialism, Sidney and Beatrice Webb, founded the London School of Economics and Political Science. Originally established as an independent institution, it would later be incorporated into the University of London in 1907. In founding the LSE, the Webbs sought to fulfill two goals, one being an implicit ideological goal, and the other being a more explicit, methodological goal.

The first goal was to advance socialism along Fabian lines. They believed that through reason and an impartial study of social phenomena, society could be rationally reorganized and reconstructed through a gradual process, through which socialism would be substituted for capitalism. “But in creating the School,” Hayek writes, the Webbs “simply went out to get the best men in their field who were available so long as they had shown some realistic sense, irrespective of political opinion” (1995: 52). Therefore, it would be oversimplified to argue that the Webbs were exclusively motivated to advance a particular public policy conclusion per se. After all, one of their early appointments at the LSE was a staunch classical liberal, Edwin Cannan, which will be the focus of this section. “The prospectus for LSE,” Ralf Dahrendorf writes, “betrays no particular bias; certainly not a political bias” (1995: 20).

Though the LSE had Fabian origins, its more explicit goal was methodological, namely that “the special aim of the School will be, from the first, the study and investigation of the concrete facts of industrial life and the actual working of economic and political relations as they exist or have existed, in the United Kingdom and in foreign countries” (quoted in Dahrendorf 1995: 20; see also Koot 1982: 7). Though not explicitly anti-Marshallian, the implication here was that the LSE should provide an education that rejects the deductive basis of economic theory, and analyzes economic phenomena purely on an inductive basis.[3] It would be more appropriate to argue, then, that the LSE was founded not to merely push a particularly public policy position. Rather, its explicit goal was to advance a particular methodological approach to studying economic phenomena, the by-product of which would be the rejection of the public policy conclusions of English classical political economy (i.e. laissez-faire) and the advancement of socialism. “When the Cambridge sage Alfred Marshall read this,” Dahrendorf writes, “he must have begun to wonder about the new institution” (1995: 20). It seems that in response to the emphasis on economic history, the history of economic thought, and statistics that had been offered at the LSE, “when Marshall instituted the new Cambridge economics curriculum in 1903, pride of place went to economic theory, while economic history was relatively neglected” (Koot 1982: 7).

This polarization in emphasis between a purely theoretical approach to economics and purely an inductive, historical approach, according to Hayek, “had such an untoward influence on the development of economic theory,” which “unfortunately led to underestimating the importance of historical perspective and historical training for economists” (Hayek 1935 [1995]: 64). This would seem to explain the receptiveness of Cannan at LSE. Though not an historicist, “Edwin Cannan was one of the few who were fortunate enough to move from history to economics without falling prey to historicism or turning their back on theory” (Hayek 1935 [1995]: 64). Moreover, “besides being a great teacher of Economics in the narrow sense, he was also a social philosopher of the lineage of David Hume, Adam Smith and Bentham” (Robbins 1935: 395). Cannan encouraged his students to read widely and beyond British economics, “with the result that LSE teaching was more ‘cosmopolitan’ than that at Cambridge or Oxford” (Howson 2018: 366).

The impact that Cannan would have on the LSE would be primarily through his teaching of young pupils, three of whom would later continue as professors at the LSE: Lionel Robbins, who in 1929 became Head of the Department of Economics, a position that he held until 1961 (O’Brien 1988: 10); Arnold Plant, who returned from the University of Capetown in South Africa to the LSE as the Cassel Chair of Commerce in 1930 (Howson 2011: 170)[4]; and Frederic Benham, also a Professor of Commerce at the LSE. As a scholar, Cannan was not a “great system maker” as Mises was, but was a “great systematiser” of the theoretical works of previous generations of economists (Robbins 1935: 397), and in doing so, was able to present economic theory as a common, unified science that could be effectively applied in the furtherance of human

[3] This is not to imply that Marshall was purely a deductive economist. As Marshall himself explains in *Principles of Economics*: “Some parts of economics are relative abstract or *pure*, because they are concerned mainly with broad general propositions: for, in order that a proposition may be of broad application it must necessarily contain a few details: it cannot adapt itself to particular cases; and if it points to any prediction, that must be governed by a strong conditioning clause in which a very large meaning is given to the phrase ‘other things being equal.’ Other parts are relatively *applied*, because they deal with narrower questions more in detail; they take more account of local and temporary elements; and they consider economic conditions in fuller and closer relation to other conditions of life” (italics original, 1920 [2013]: 31, fn.1).

Therefore, Marshall did not reject economic history or the inductive approach completely. He was arguing that while applied economics had to be contingent and applicable to a particular time and place and must therefore be largely inductive, economic theory itself should remain largely deductive. Similar to the early Austrians, Marshall’s use of historical data was largely designed to *illustrate* economic theories, rather than being an essential and primary element in his work.

[4] We should not neglect to mention another prominent student of Cannan, W.H. Hutt.

welfare. "No contemporary economist devoted himself more singlemindedly and more successfully to this objective" (Hayek [1935] 1995: 68). It was this strand of Cannan's economic tradition that Robbins, and also Hayek, would carry forward as a joint effort at the LSE in the 1930s. What Arnold Plant had retained from Cannan was his "commonsense approach to economic analysis and economic policy" (Coase 1986 [1994]: 177), which would later be advanced by one of Plant's students, Ronald Coase.

Most importantly for the trajectory of the LSE's history in the 1930s, "Cannan really prepared the ground, in England, for the reception of the ideas of a much younger Austrian who has been working since the early 'twenties on the reconstruction of a solid edifice of liberal thought in a more determined, systematic and successful way than anyone else" (Hayek 1951 [2012]: 165). The "younger Austrian" to which Hayek was referring was not himself, but Ludwig von Mises. However, it was the efforts of one individual, more than anyone else, who set the stage for the migration of the Austrian tradition, and the transplantation of Mises's ideas to the English-speaking world, both through the translation of his works and in the development of his ideas through Hayek. That individual was none other than Lionel Robbins, as we discuss in the next section.

3 Setting the stage for an Austrian migration: Lionel Robbins and Hayek's LSE visit

"One of Lionel Robbins's greatest achievements," Susan Howson writes, "was what he did for LSE and its department of economics in the 1930s. In 1929 he could not know how much he would achieve in a decade but he started his new job with great resolution" (Howson 2011: 166). From the outset of his appointment in 1929, Robbins had been determined to build up the emphasis on economic theory in the Department of Economics. This is best evidenced in his inaugural lecture at the LSE on January 30th, 1930, entitled, "The Present Position of Economic Science."

Robbins indicates three main deficiencies in economic theory of which economists should be more conscious. First, Robbins points to "gaps in the existing body of theory," particular in price theory and its explanation of macroeconomic phenomena, including industrial fluctuations. Robbins is referring to the "relation between saving, discount rates, and prices in a modern credit economy. Here is a field in which, apart from isolated efforts by Wicksell and one or two others, little or nothing had been done before the war" (1930: 17).

Secondly, Robbins points out deficiencies related to "the logical structure of existing theory," particular with respect to cost theory. "Ever since the time of Marshall," Robbins writes, "economists have been vaguely aware that certain difficulties attendant on the construction of particular equilibrium cost curves had not been fully surmounted." Robbins's criticism of cost theory had been that variations of costs had been treated in terms of comparative statics, and therefore rendering the concept of supply in terms of objective quantities, not subjective valuations of alternative demands. Expanding on this point elsewhere, the implication of taking cost as objective is that it leaves the question of how markets equilibrate across time unanswered. "This is notoriously the field of theoretical economics in which least has been done and in which most remains still to do" (Robbins 1934a: 15). In terms of cost theory, Robbins singles out "the Austrian contribution to this theory" as "pre-eminently suited to the explanation of the phenomena of movement" in the market process (Robbins 1934a: 15).

The third deficiency pointed out by Robbins was the failure among economists to distinguish between the logical validity of economic theory and the application of theory to particular circumstances of time and place, according to sound assumptions. As Robbins states, a "theory may be perfectly consistent in itself and yet not be applicable to the explanation of a given situation, because the assumptions from which it starts are either too simple or not in harmony with the facts" (1930: 18–19). Robbins was directing his claim towards Institutionalists, who had rejected pure theory as the analytical core for explaining economic phenomena across time and place (1930: 20). Robbins understood that individuals are always behaving rationally, but the manner in which such rationality manifests itself in a particular time and place is *institutionally-contingent*. Thus, economic theory is not exclusively defined by the deductive logic of rational choice. Rather, the logic of rational choice is the deductive core of relative price theory, which traces the emergence of relative prices from the interaction of individuals in response to expected costs and expected benefits.[5] Whether relative prices coordinate or fail to coordinate the diverse plans of individuals is dependent upon the protection of freedom of contract under the rule of law. For economists from Adam Smith to Alfred Marshall, "there has been no sterile separation of methods." The theory of price formation requires an overlap of economic theory and economic history, according to Robbins, and therefore, economic science "is neither wholly deductive nor wholly inductive" (1930: 20).

Consistent with his plea, as Chair of the Economics Department, Robbins's efforts were to consolidate and integrate the various strands of economic theory that were consistent with the Austrian tradition, not just in terms of macroeconomic analysis, but also specifically cost theory, and economic methodology, so as to develop a unified economic science. In many ways, Robbins was simply continuing to advance the LSE tradition that he inherited from Cannan, which went beyond the insularity of English, and particularly, Oxbridge economics. However, evidenced by his inaugural lecture, "Mises and other Austrians, notably Hayek who joined him at LSE, exercised a pervasive influence on Robbins's early work" (O'Brien 1988: 12), and laid the methodological and analytic core of the evolution in the LSE tradition that he was advancing.

Robbins's direct impact and influence at LSE came through his teaching, specifically his course, General Principles of Economic Analysis, concentrating on what was then called value and distribution, or in modern parlance price theory or microeconomics (Coase 1982: 33; Howson 2011: 167), as well as his world-renowned graduate seminar, more of which will be discussed in Section IV. On this aspect of Robbins's influence, Hayek had this to say:

> Unlike the English of that period, [Robbins] was not at all insular; he really knew the literature of the world. In a sense, modern economics is his creation, by

[5] As Robbins explains in *An Essay on the Nature and Significance of Economic Science*, "it is clear that the phenomena of the exchange economy itself can only be explained by *going behind* such relationships and invoking the operation of those laws of choice which are best seen when contemplating the behavior of the isolated individual" (emphasis original 1932 [1952]: 20).

> bringing together what was then a number of diverse schools: the English tradition of Marshall, the Swedish tradition, the Austrian tradition. And he did it very effectively in his lectures, which were masterly. If those had been turned into a textbook, it might have changed the development of economics.[6] Unfortunately, war came and he never did it (Hayek 1978 [1983]: 110).

Robbins's effort to unify economic theory into a consolidated whole was not only done through his teaching. It was also furthered through his efforts as the editor of the *LSE Series of Scarce Tracts in Economics and Political Science*, through which he reprinted and translated the works of economists that had contributed to and were consistent with the Austrian tradition. As Susan Howson writes, "Lionel continued his efforts to make continental European economics better known in England by proposing a series of translations of the leading German, Scandinavian, and Italian works in economics to be published under LSE auspices" (2011: 200–201). Among the works published through this series were Phillip Wicksteed's *Essay on the Co-ordination of the Laws of Distribution* ([1894], reprinted in 1932 as no. 12 of the series), Wicksell's *Über Wert, Kapital und Rente* ([1894], reprinted in 1933 as no. 15 of the series), and Frank Knight's *Risk, Uncertainity, and Profit* [1894], reprinted in 1933 as no. 16 of the series). In this effort, Robbins was also joined by Arnold Plant, with whom additional recommendations were submitted to the LSE Publications Committee for publication and translation outside the *LSE Series*. These recommendations included Mises's *Theory of Money and Credit* and *Socialism*, published by Johnathan Cape in 1934 and 1936, respectively, as well as Knut Wicksell's *Lectures on Political Economy*, published by Routledge in 1934. Moreover, Robbins wrote the introduction to the second edition of Wicksteed's *The Commonsense of Political Economy* (1910 [1933]).

Based on Hayek's and Coase's accounts of the LSE during that period, Robbins had recommended both Knight's *Risk, Uncertainty and Profit* and Wicksteed's *The Commonsense of Political Economy* as standard introductions into the current state of economic theory. As Coase further mentions, the close study of those two texts, particularly Wicksteed, gave young economists at the LSE a "firm hold on cost theory" (Coase 1982: 33) unique to the LSE (see Buchanan 1973 [1981]).

Because of Robbins, as well as Plant, works that had been nearly forgotten, or that had not been previously translated, were now made available once again. It is through these teaching and publishing efforts that Robbins hoped that "gradually the materials for a new synthesis will accumulate, and one day it will occur to one of us that much that now appears to be discreet and disconnected is really bound together by a common unity. And then will come the time for that comprehensive restatement and architectonic generalisation, for the wide sweep and the clear vision for which to-day we wait so eagerly" (Robbins 1930: 22). Robbins's cultivation of this intellectual environment was, as Hayek had put it, "succeeding in establishing a unified tradition in economic theory and abolishing all 'separate schools'" (1995: 49). This is evidenced by accounts given not only by Ronald Coase, but also Ludwig Lachmann:

[6] Curiously enough, Ronald Coase, in his own recollection of the LSE of the 1930s, also alludes to this claim made by Hayek that it "seems to have been Robbins's intention to publish these lectures but unfortunately this was never done. Of their contents and character, Robbins says next to nothing in his autobiography" (Coase 1982: 33).

> What characterized LSE in the 1930s was that, despite the holding of firm views, there was a lack of doctrinal commitment, which resulted in an openness to new ideas. The main new ideas came from America and the continent…Ideas were quickly absorbed and they became the basis for further work without much regard for their source. Economists at LSE were not self-consciously Austrians or Paretians or Walrasians, and certainly not Marshallians…Marshall was in the calendar of saints, but few of us prayed exclusively to him (Coase 1982: 34).
> At LSE in the 30s we were all encouraged to think of our work as 'economic science', a uniform subject, and of 'schools of thought' as belonging to a not quite reputable past. We were all economists!" (Lachmann, quoted in Mittermaier 1992: 11, fn. 2).

It is this groundwork laid by Robbins, along with Plant, that would also lead to the receptive conditions of Hayek's eventual visit and appointment to the LSE. Hayek wrote to Mises in a letter dated November 21, 1931, stating "I must tell you this because I here feel more indebted to you than anytime before. Moreover, given that Robbins and Plant provide excellent support to championing your ideas, I hope to have some success" (Mises Archive 81, quoted in Hülsmann 2007: 635).

Given Robbins's proficiency in German, he had already been familiar with the works of Mises by the time of his appointment, but it was the publication of "The Paradox of Saving" (1931a, translated by Nicholas Kaldor and Georg Tugendhat from German as "Gibt es einen Widersenn des Sparerns?") that drew Robbins's attention to Hayek, particularly his criticism of underconsumption theorists William Foster and Wadill Catchings. Based on this article, Robbins had extended an invitation to Hayek, with the blessing of William Beveridge, director of the LSE from 1919 to 1937 (Hayek 1978 [1983]: 101). According to Susan Howson, before Robbins's appointment, Beveridge had proposed to revive the vacant Tooke Professorship of Economic Science and Statistics which had been previously been tenable at King's College London (2011: 169). The Emergency Committee of the LSE agreed that the Tooke chair for the time being should be used for visiting professorships, which was initially granted to Hayek after delivering his lectures, delivered in January 1931, and later became the basis for his book *Prices and Production* (1931b). As Robbins would write in his autobiography, "the lectures were a sensation," and "they conveyed such an impression of learning and analytical invention" (1971: 127) that most students of economics at the LSE became Hayekians or incorporated elements of Hayek's approach in their own thinking. Even Coase described that "with the arrogance of youth, I myself expounded the Hayekian analysis to the faculty and students at Columbia University in the fall of 1931" (Coase 1982 [1994]: 19). Hayek's greatest impact at the LSE, however, would be manifested through his joint seminar with Lionel Robbins.

4 The Hayek & Robbins Seminar

What became known as the joint seminar held by Hayek and Robbins was initially introduced by Allyn Young, who had served as the head of the Economics Department prior to Robbins, between 1926 and 1929. He had introduced a seminar in economic theory for research students, in addition to the classes in economic theory he taught for advanced undergraduates. However, it was under Hayek and Robbins's supervision, between 1931 and 1940 – the year in which Robbins had gone into government service during the war – that the seminar would draw students from around the world, influencing the direction of economic theory ever since. Recollecting on his days as a post-doctoral fellow at Cambridge, John Kenneth Galbraith remarked that the seminar "was attended, it came to seem, by all the economists of my generation – Nicky [Kaldor], Thomas Balogh, L.K. Jah, Paul Rosenstein-Rodan, the list could be indefinitely extended. The urge to participate (and correct Hayek) was ruthlessly competitive" (Galbraith 1991: 48).

The partnership forged between Hayek and Robbins in advancing the Austrian tradition at the LSE manifested itself most noticeably in their joint seminar. This partnership was evidenced particularly with the supervision of students. "When you ask about my pupils during this English period," Hayek stated, "in most instances I won't know whether he was really formally Robbins's or mine. We had a common seminar, and it was pure chance which of us undertook to supervise a thesis. So in most instances I wouldn't know whether he was formally Robbins's or my pupil. It was really a joint seminar and a joint arrangement" (1978 [1983]: 363–364).

The structure of the seminar was such that, according to Hayek, thirty or forty people attended at a time, including several members of the LSE faculty and staff, including Arnold Plant, Frederic Benham, and John Hicks, the latter of which, from Hayek's inspiration, would develop the indifference curve approach to utility theory[7] (Hayek 1978 [1983]: 247–248, 364; Hayek 1995: 56–57). The seminar also drew such prominent visitors such as John Kenneth Galbraith, Ludwig von Mises, Oskar Lange, George Stigler (see Stigler 1949), and Jacob Viner. Among the students were a group of high-caliber superstars who would become prominent scholars in their own right, each of which developed the ideas of Hayek and Robbins discussed in that seminar (see Boettke and Piano 2018). They included, among others, Nicholas Kaldor,[8] Abba Lerner, Ludwig Lachmann, and G.L.S. Shackle. The topics discussed during that period addressed questions of price theory, "determined largely by current publications and *aiming at a synthesis of the various still-prevailing schools*" (emphasis added, Hayek 1995: 56).

The Hayek and Robbins seminar, most importantly, served as an inspiration to several LSE students, who, building from Hayek's exposition of the knowledge problem implicit in Mises's critique of the possibility of economic calculation under

[7] Interestingly, Hayek remarked to James Buchanan at an interview at UCLA: "I had a curious influence on Hicks. You won't believe it, but I told him about indifference curves (Hayek 1978 [1983]: 247–248). Remarking to Armen Alchian during those interviews at UCLA, who asked where Hayek had learned indifference curve analysis, Hayek responded in the following way:

> I had of course spent all my early years on utility analysis and all these forms, and we had in Vienna–[Paul] Rosenstein [−Rodan] wrote that great article on marginal utility, and with him we waded through the whole literature on the subject of marginal utility, including– I was very attracted, in a way, by the indifference-curve analysis. I thought it was really the most satisfactory form, particularly when it became clear that it unified the theory of production and the theory of utility with a similar apparatus. So by the time I came to London, although I had never been thinking of it in algebraic terms, the geometry of it was very familiar to me. (Hayek 1978 [1983]: 365–366).

[8] Kaldor started out as a Hayekian, translating with H.M. Croome Hayek's *Monetary Theory of the Trade Cycle*, and wrote his first published paper on an "Austrian" interpretation of the trade cycle (1932),

socialism, developed economic theory in new directions. One of them, Leonid Hurwicz, pioneered mechanism design theory from his studies not only with Hayek at the LSE, but also Mises in Geneva. "The ideas of Hayek (whose classes at the London School of Economics I attended during the academic year 1938—39) have played a major role in influencing my thinking and have been so acknowledged…as well as by Ludwig von Mises in whose Geneva seminar I took part during 1938—49[9]" (Hurwicz 1984: 419; see also Maskin 2015).

The socialist calculation debate would also raise new research questions that students of the LSE would pursue, most notably Ronald Coase. Though Coase was not a student of Hayek in the Department of Economics, "there was something in the air, and Coase could not help but breathe it in during his time there" (Medema 1994: 4). It was through the direct influence of Arnold Plant that Coase would become familiar with the debate over economic calculation under socialism, and from this debate, he was inspired to reconcile the views of Mises and those of Marxists with the existence of firms within a market economy coordinated through prices, which became his paper "The Nature of the Firm" (1937).

Though Hayek's impact was great at the LSE and beyond, he did anticipate to some degree some warning signs in the direction of economic theory during the 1930s. In his inaugural lecture at the LSE, "The Trend in Economic Thinking" (1933), the main critique to which neoclassical economics had been directed came from socialism, and in particular, historicism. "Refusing to believe in general laws," Hayek argued, "the Historical School had the special attraction that its method was constitutionally unable to refute even the wildest of Utopias, and was, therefore, not likely to bring disappointment associated with theoretical analysis"(1933: 125). The decline of "the old political economy" came not from a faulty understanding of the spontaneous coordination of human interaction via private property and market prices, but rather from the alleged claim that, in their theoretical analysis, classical political economists were not conscious of the welfare of the least advantaged in society. However, "nothing could be farther from the truth" (1933: 122). However, precisely at a time when neoclassical economists had reconstructed economic theory on a sounder analytical basis, "the superstructure of more concrete applications which had been left in the hands of the more practical-minded men, fell gradually, more discredited than approved, into oblivion" (1933: 126). The consequence of this outcome would be the refusal of individuals in public policy to avail themselves of the knowledge provided by the economic scientist, which would have provided the prophylactic necessary against the popular fallacy that the economy could only be organized through deliberate regulation, and in particular, that the coordinative effect of the "invisible hand" process, so aptly illustrated by Smith and the classical political economists, operated without any governance by institutions, such as private property and freedom of contract under the rule of law.

What Hayek did not anticipate, recollecting back to the LSE of the 1930s, was that in the years between 1931 and 1937, which would mark a high point and the end of one period in the history of economic theory, and in which Hayek and Robbins seemed to have unified the various strands of economic theory into one coherent whole, "a new rift appeared which divided the economic theorists in different lines" (1995: 49). The

[9] The year "1949" is a typo, since Mises had already left Geneva in 1940 for the United States, where Hurwicz had also fled.

differences that emerged were no longer stylistic or semantic differences in presentation. Rather, "one of the main results of most of the discussions of the 1930s was to create an interest and an awareness of methodological problems of our science" (Hayek 1995: 61), of which Hayek had been previously aware, evidenced not only by the defection of his various LSE students to Keynesianism, but also by his being unintentionally drawn into the socialist calculation debate against the market socialists, Oskar Lange[10] and Abba Lerner, the latter having been one of Hayek's own students.

The paradigmatic shift in macroeconomics, and its unfortunate split from microeconomics, had been based on an abandonment of *the* fundamental idea undergirding economic theory, that the process of *relative price formation reflects the coordination of future anticipations regarding the direction of production and consumption*. Whereas the guiding role of relative price expectations, including interest rates, had been, as Axel Leijonhufvud would put it, "completely obfuscated" (1981: 134) in the Keynesian framework, the role of equilibrium prices in the market socialist framework defined expectations out of existence. Yet, this is precisely what both Hayek and Robbins in their scholarly work had been emphasizing in developing the full implications of the subjective theory of value for price theory, particular Hayek's "Economics and Knowledge" (1937), but also Robbins's "Remarks upon Certain Aspects of the Theory of Costs" (1934a).

It was this paradigmatic change in economic theory that drew not only Hayek, but also Robbins, to questions of applied theory and economic policy, particularly an emphasis on what economists, going back to Adam Smith, had understood to be the institutional arrangements necessary for the market process to coordinate the plans of individuals via the price system. Though Hayek and Robbins had been concentrated on technical aspects of pure theory in their seminar jointly and their research independently, they also inherited a particular concern for the decline of Western civilization that was shared by the Austrians of Vienna. As Robbins wrote:

> We had the same sense of academic standards and the same conception of the needs of our sector of the School in regard to future development… we had *a common devotion to the ideals of a free society*[11] and a common apprehension of the contemporary dangers thereto. Both in terms of intellectual companionship and academic collaboration I should find it difficult to overstate the stimulus and help which I derived from this relationship (emphasis added, Robbins 1971: 129).

However, to conclude from this that Hayek and Robbins's technical understanding of economic theory and their public policy conclusions were independent from each other would be misleading. Rather, their public policy conclusions were motivated as a *by-product* of their scientific analysis. Like their Viennese predecessors, Hayek and Robbins were neither disinterested scientists nor ideologues, but as Dekker puts it, "*interested* observers and interpreters" (emphasis original, 2016a: 19) of the institutional and epistemic requirements necessary for a free society to exist. For example, in

[10] Oskar Lange had also been a visitor the Hayek and Robbins seminar (see Hayek 1978 [1983]: 371).

[11] Elsewhere in his autobiography, Robbins wrote the following regarding Hayek: "it is my belief that his *Constitution of Liberty* is one of the most important and thought-provoking works in this field that has appeared in our time" (1971: 128).

Economic Planning and International Order (1937), as well as a series of lectures originally delivered at the London School of Economics in 1939 – later published as *The Theory of Economic Policy in English Classical Political Economy* (1952 [1965]) – Robbins sought to address the prevailing misperceptions held regarding classical political economy (see Robbins 1937: 224–226; Robbins 1952 [1965]: vii;). As an illustration of the prevailing view during that time, let us quote Keynes from his essay, "The End of Laissez-Faire":

> Let us clear from the ground the metaphysical or general principles upon which, from time to time, *laissez-faire* has been founded. It is not true that individuals possess a prescriptive 'natural liberty' in their economic activities. There is *no* 'compact' conferring perpetual rights on those who Have or on those who Acquire. The world is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the principles of economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately (emphasis original, 1926 [1978]: 287-288).

Though not addressing Keynes directly, the following quote from Robbins is worth noting:

> For the Classical Economists, as for Locke, the state of nature is a poor business. They do not believe in an original contract; Hume made eternal fun of that fiction. They do not believe that all beneficial social activities have been planned from the centre, nor that it is desirable that planning of this detailed sort should be attempted. But they do believe in the conscious testing of all social institutions by the general principle of utility. And they do believe that without a firm framework of law and order, harmonious relations between individuals are unlikely to come into being; the pursuit of self-interest, unrestrained by suitable institutions, carries no guarantee of anything except chaos. Moreover, these institutions are not natural in the sense that they arise inevitably. They can only be called natural if by that word is meant conformable to the principle of utility; and while they may emerge without deliberate reflection on all their implications, their fitness to survive must be judged by rational criteria (1952 [1965]: 55-56).

It is this misperception of his day that Robbins, along with Hayek, sought to remedy, and it is no surprise that Robbins argued that "[i]t is no exaggeration to say that it is impossible to understand the evolution and the meaning of Western liberal civilization without some understanding of Classical Political Economy" (1952 [1965]: 4). Thus, the case for liberalism, according to Robbins, laid not in the "continuous achievement of the perfect competitive equilibrium of pure theory" (1937: 260), but in providing "a safeguard for happiness and spontaneity more efficient than any other which has yet been suggested" (1937: 268). Thus, the establishment of a unified economic science at the LSE was meant not only to address the technical deficiencies underlying pure theory, but also to apply such theory to understand the institutionally contingent nature of the coordination of individual plans without deliberate planning.

5 WWII, divorce, and diaspora: Concluding remarks

In his address to the Southern Economic Association, Israel Kirzner stated that what "Mises and Hayek were doing (in their respective contributions during the 1937–48 decade) was to attain a deeper insight and more articulated understanding of what they had believed to be the shared, settled principles of all 'modern' schools of economics" (Kirzner 2017: 864–865). In many ways, this attempt to restate and rearticulate this common understanding in economic theory, held among early neoclassicals, had been preceded by Robbins and Hayek during the "Golden Era" of the LSE.

Several events, however, would lead to the end of the "Golden Era" of intellectual activity that took place at the LSE during the 1930s. "The successive years of the thirties, at the L.S.E. and elsewhere," Robbins writes, "were darkened more and more by the growing shadow of the Nazis" (1971: 142). The outbreak of war led to the removal of the LSE to Cambridge, with Robbins departing for government service. Moreover, Robbins would later express remorse for his affinity to the Austrians, stating that his publication of *The Great Depression* (1934b) was "the greatest mistake" of his professional career[12] (Robbins 1971: 154).

In 1950, Hayek moved to the U.S., not only to join the Committee on Social Thought at the University of Chicago, but also to divorce his wife, Helen Berta Maria von Fristch. Hayek later recounted the circumstances of the marriage, his subsequent divorce, and remarriage: "I married on the rebound when the girl [Helen Bitterlich] I had loved, a cousin, married somebody else. She is now my present wife. But for 25 years I was married to the girl whom I married on the rebound, who was a very good wife to me, but I wasn't happy in that marriage. She refused to give me a divorce, and finally I enforced it"[13] (Hayek 1978 [1983]: 395).

Hayek's migration to the U.S. was also indicative of a larger shift in intellectual activity from the Europe to the U.S. However, the work that Hayek and Robbins had accomplished in bringing Mises's ideas to the English-speaking world, not only through translation of his publications, but also through their own development of his ideas, would have a ripple effect that is felt today. The development of property-rights economics by Armen Alchian, public choice by Buchanan and Tullock (see Boettke and Candela 2018), law-and-economics by Coase, information economics under George Stigler and Joseph Stiglitz, mechanism design theory by Leonid Hurwicz, and experimental economics by Vernon Smith, can all trace their influence, either directly or indirectly, from the joint effort of Hayek and Robbins to unify the various strands of economic theory that either contributed to or were consistent with the Austrian tradition. Once we understand

[12] It is important to be clear that Robbins did *not* reject the Austrian theory of the trade cycle in terms of its logical validity, but only in terms of its *applicability* to the circumstances of the 1930s. As he wrote in his autobiography, "I had become the slave of theoretical constructions which, if *not intrinsically invalid as regards logical consistency*, were inappropriate to the total situation which had then developed and which therefore misled my judgment" (emphasis added, 1971: 153)

[13] See also the Robbins Papers, LSE Archives, 3/2/13, for correspondence between Hayek and Robbins relating to Hayek's divorce and relocation to the U.S. (1950–1951) as well as Ebenstein (2018).

that these diverse approaches are interrelated and have a common origin, then as Buchanan has written, we should acknowledge that these diverse approaches "must be bases for conciliation, not conflict. We must marry the property-rights, law-and-economics, public choice, Austrian subjectivist approaches" (2015: 260), just as the example of the LSE of the 1930s provides, into a coherent and unified economic science that is consistent with understanding the institutional conditions necessary to make social cooperation possible without command.

Acknowledgements This paper was presented on October 12, 2018 at the 7th Biennial Workshop on Austrian Economics sponsored by the Wirth Institute for Austrian and Central European Studies at the University of Alberta in Edmonton, Canada. We thank Alfred Wirth for sponsoring this workshop, and the participants of the workshop for their valuable feedback and comments. We also thank Professor Tim Besley for an invitation to present this paper at a seminar hosted by the Spinoza Foundation, the Department of Economics of the London School of Economics and Political Science (LSE), and the Suntory and Toyota Internationale Centres for Economics and Related Disciplines (STICERD) Institutions, Organizations and Growth Programme on February 18, 2019. In addition, we thank the archivists of the LSE library for granting us access to the special collection of the papers of Lionel Robbins in preparation of this article. In addition, we gratefully acknowledge Marcus Shera for his helpful feedback and comments. Any remaining errors are entirely our own.

We also acknowledge the financial support of the F.A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center at George Mason University.

References

Boettke, P. J. (2018). *F. A. Hayek: Economics, political economy and social philosophy.* New York: Palgrave Macmillan.

Boettke, P. J., & Candela, R. A. (2017). Price theory as prophylactic against popular fallacies. *Journal of Institutional Economics, 13*(3), 725–752.

Boettke, P. J., & Candela, R. A. (2018). Gordon Tullock, praxeology, and the qualities of a natural born Misesian. *The Independent Review: A Journal of Political Economy, 23*(2), 169–185.

Boettke, P. J., & Piano, E. E. (2018). Friedrich Hayek. In R. A. Cord (Ed.), *The Palgrave companion to LSE economics* (pp. 373–397). London: Palgrave Macmillan.

Buchanan, J. M. (1973 [1981]). Introduction: L.S.E. Cost theory in retrospect. In J. M. Buchanan & G. F. Thirlby (Eds.), *L.S.E. Essays on cost* (pp. 3–16). New York: New York University Press.

Buchanan, J. M. (2015). NOTES ON HAYEK–Miami, 15 February, 1979. *The Review of Austrian Economics, 28*(3), 257–260.

Coase, R. H. (1937). The nature of the firm. *Economica, 4*(16), 386–405.

Coase, R. H. (1982). Economics at LSE in the 1930s: A personal view. *Atlantic Economic Journal, 10*(1), 31–34.

Coase, R. H. (1982 [1994]). *How should economists choose? Reprinted in Essays on economics and economists* (pp. 15–33). Chicago: University of Chicago Press.

Coase, R. H. (1986 [1994]). *Arnold Plant. Reprinted in Essays on economics and economists* (pp. 176–184). Chicago: University of Chicago Press.

Dahrendorf, R. (1995). *A history of the London School of Economics and Political Science: 1895–1995*. New York: Oxford University Press.

Dekker, E. (2016a). *The Viennese students of civilization: The meaning and context of Austrian economics reconsidered.* New York: Cambridge University Press.

Dekker, E. (2016b). Left luggage: Finding the relevant context of Austrian economics. *The Review of Austrian Economics, 29*(2), 103–119.

Ebenstein, L. (2018). Hayek's divorce and move to Chicago. *Econ Journal Watch, 15*(3), 301–321.

Galbraith, J. K. (1991). Nicholas Kaldor remembered. In E. J. Nell & W. Semmler (Eds.), *Nicholas Kaldor and mainstream economics: Confrontation or convergence?* (pp. 48–49). New York: Palgrave Macmillan.

Hayek, F. A. (1931a). The 'paradox' of saving. *Economica, 32*, 125–169.

Hayek, F. A. (1931b). *Prices and production*. London: Routledge.
Hayek, F. A. (1933). The trend of economic thinking. *Economica, 40*, 127–137.
Hayek, F. A. (1935 [1995]). Edwin Cannan. In B. Caldwell (Ed.), *The collected works of F.A. Hayek, volume 9: Contra Keynes and Cambridge: Essays, correspondence* (pp. 64–73). Indianapolis: Liberty Fund.
Hayek, F. A. (1937). Economics and knowledge. *Economica, 4*(13), 33–54.
Hayek, F. A. (1951 [2012]). The transmission of the ideals of economic freedom. *Econ Journal Watch, 9*(2), 163–169.
Hayek, F. A. (1978 [1983]). *Nobel Prize-Winning Economist: Friedrich A. von Hayek*. Los Angeles: The Regents of the University of California.
Hayek, F. A. (1995). The economics of the 1930s as seen from London. In B. Caldwell (Ed.), *The collected works of F.A. Hayek, volume 9: Contra Keynes and Cambridge: Essays, correspondence* (pp. 49–63). Indianapolis: Liberty Fund.
Howson, S. (2011). *Lionel Robbins*. New York: Cambridge University Press.
Howson, S. (2018). Lionel Robbins. In R. A. Cord (Ed.), *The Palgrave companion to LSE economics* (pp. 347–371). London: Palgrave Macmillan.
Hülsmann, J. G. (2007). *Mises: The last knight of liberalism*. Auburn: Ludwig von Mises Institute.
Hurwicz, L. (1984). Economic planning and the knowledge problem': A comment. *Cato Journal, 4*(2), 419–425.
Kaldor, N. (1932). The economic situation of Austria. *Harvard Business Review, 11*(10), 23–34.
Keynes, J. M. (1926 [1978]). The end of laissez-faire. In E. Johnson & D. Moggridge (Eds.), *The collected writings of John Maynard Keynes, volume 9: Essays in persuasion* (pp. 272–294). New York: Cambridge University Press.
Kirzner, I. M. (2017). The entrepreneurial market process—An exposition. *Southern Economic Journal, 83*(4), 855–868.
Knight, F.H. (1894 [1933]). *Risk, uncertainty, and profit, Reprint no. 16*. London: London School of Economics Series of Reprints of Scarce Tracts in Economics and Political Science.
Koot, G. M. (1982). An alternative to Marshall: Economic history and applied economics at the early LSE. *Atlantic Economic Journal, 10*(1), 3–17.
Leijonhufvud, A. (1981). *Information and coordination: Essays in macroeconomic theory*. New York: Oxford University Press.
Marshall, A. (1920 [2013]). *Principles of Economics* (8th Ed.). New York: Palgrave Macmillan.
Maskin, E. S. (2015). Friedrich von Hayek and mechanism design. *The Review of Austrian Economics, 28*(3), 247–252.
Medema, S. G. (1994). *Ronald H. Coase*. New York: St. Martin's Press.
Mises, L.v. (1920 [1975]). Economic calculation in the socialist commonwealth. In F. A. Hayek (Ed.), *Collectivist Economic Planning* (pp. 87–130). Clifton: Augustus M. Kelley.
Mises, L.v. (1933 [2013]). *Epistemological problems of economics*. Indianapolis: Liberty Fund.
Mittermaier, K. H. M. (1992). Ludwig Lachmann (1906-1990) a biographical sketch. *South African Journal of Economics, 60*(1), 4–12.
O'Brien, D. P. (1988). *Lionel Robbins*. London: Macmillan Press.
Robbins, L. (1930). The present position of economic science. *Economica, 28*, 14–24.
Robbins, L. (1932 [1952]). *An essay on the nature and significance of economic science* (2nd ed.). London: Macmillan.
Robbins, L. (1934a). Remarks upon certain aspects of the theory of costs. *The Economic Journal, 44*(173), 1–18.
Robbins, L. (1934b). *The great depression*. London: Macmillan.
Robbins, L. (1935). A student's recollections of Edwin Cannan. *The Economic Journal, 45*(178), 393–398.
Robbins, L. (1937). *Economic planning and international order*. London: Macmillan.
Robbins, L. (1952 [1965]). *The theory of economic policy in English classical political economy*. London: Macmilllan.
Robbins, L. (1971). *Autobiography of an economist*. London: Macmillan.
Stigler, G. J. (1949). *Five lectures on economic problems: Five lectures delivered at the London School of Economics and Political Science on the invitation of the senate of the University of London*. London: Longmans, Green and Co.
Vaughn, K. I. (1994). *Austrian economics in America: The migration of a tradition*. New York: Cambridge University Press.
Viner, J. (2013). *Lectures in economics 301*. In D. A. Erwin & S. G. Medema (Eds.). New Brunswick: Transaction Publishers.
Wicksteed, P.H. (1894 [1932]). *An essay on the co-ordination of the laws of distribution, Reprint no. 12*. London: London School of Economics Series of Reprints of Scarce Tracts in Economics and Political Science.

Wicksteed, P.H. (1894 [1933]). *Über wert, kapital und rente, Reprint no. 15*. London: London School of Economics Series of Reprints of Scarce Tracts in Economics and Political Science.
Wicksteed, P.H. (1910 [1933]). *The Commonsense of Political Economy, 2nd edition*. London: Routledge & Kegan Paul.