

MONEY & INVESTING

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Spreading Hayek, Spurning Keynes

Professor Leads an Austrian Revival

BY KELLY EVANS

Peter J. Boettke, shuffling around in a maroon velour track suit or faux-leather rubber shoes he calls "dress Crocs," hardly seems like the type to lead a revolution.

But the 50-year-old professor of economics at George Mason University in Virginia is emerging as the intellectual standard-bearer for the Austrian school of economics that opposes government intervention in markets and decries federal spending to prop up demand during times of crisis. Mr. Boettke, whose latest research explores people's ability to self-regulate, also is minting a new generation of disciples who are spreading the Austrian approach throughout academia, where it had long been left for dead.

To these free-market economists, government intrusion ultimately sows the seeds of the next crisis. It hampers what one famous Austrian, Joseph Schumpeter, called the process of "creative destruction."

Governments that spend money they don't have to cushion downturns, they say, lead nations down the path of large debts and runaway inflation.

Eight decades ago, in the midst of the Great Depression, the Austrian school and its leading scholar, Friedrich A. von Hayek, fell out of favor relative to the more activist theories of John Maynard Keynes. The British economist's ideas, which

called for aggressive government spending during recessions, triumphed then and in the decades since, reflected most recently in measures like the \$814 billion stimulus package. Austrian adherents were marginalized, losing influence in prominent journals and among policy makers.

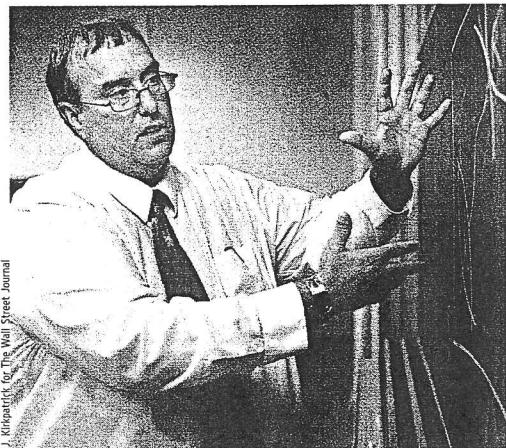
But as the economy flounders, debt mounts and growth—revised downward Friday—flags, Mr. Hayek and his adherents like Mr. Boettke are resurgent as their views resonate with more people.

"What I'm really worried about is an endless cycle of deficits, debt, and debasement of currency," Mr. Boettke says. "What we've done is engage in a set of policies that's turned a market correction into an economy-wide crisis."

Others seem to agree. Mr. Hayek's 1944 classic, "The Road to Serfdom," became the top-selling book in June on Amazon.com. The Austrian think tank Foundation for Economic Education had to turn students away this summer from its overflowing seminars.

Of course, economic theory ebbs and flows. The Austrian school surged along with inflation and unemployment in the 1970s. By the 1980s, free-market ideas ushered in the Reagan Revolution. But the success faded as inflation was successfully controlled by central bankers and government spending actually rose during the Reagan years. Besides, no one figure

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Peter J. Boettke of George Mason University is the emerging standard-bearer for a revived Austrian school of economics.

Economist Leads an Austrian Revival

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emerged as the leader of a fractious group of economists averse to central planning.

Mr. Boettke has come as close as anyone in recent years. In the last decade at George Mason, he has helped recruit the Austrian school's leading scholars and drawn students from around the world. Roughly 75% of his students have gone on to teach economics at the college or graduate level.

Mr. Boettke "has done more for Austrian economics, I'd say, than any individual in the last decade," says Bruce Caldwell, an editor of Mr. Hayek's collected works.

The resurgence of Austrian economics does have its hazards, Mr. Boettke says. The antigovernment fervor on cable-television shows and the Internet may have popularized its theories, but it also "reinforces the idea that critics that these are crackpot ideas," he said. He has tried to distance himself from conspiracy theorists and even dropped "Austrian" from the name of his blog. But he hasn't yet thought of a better term.

'Always On'

Still, Mr. Boettke isn't too concerned with matters of style. More folksy than formal, his commitment to economics, as his wife Rosemary says, is "always on."

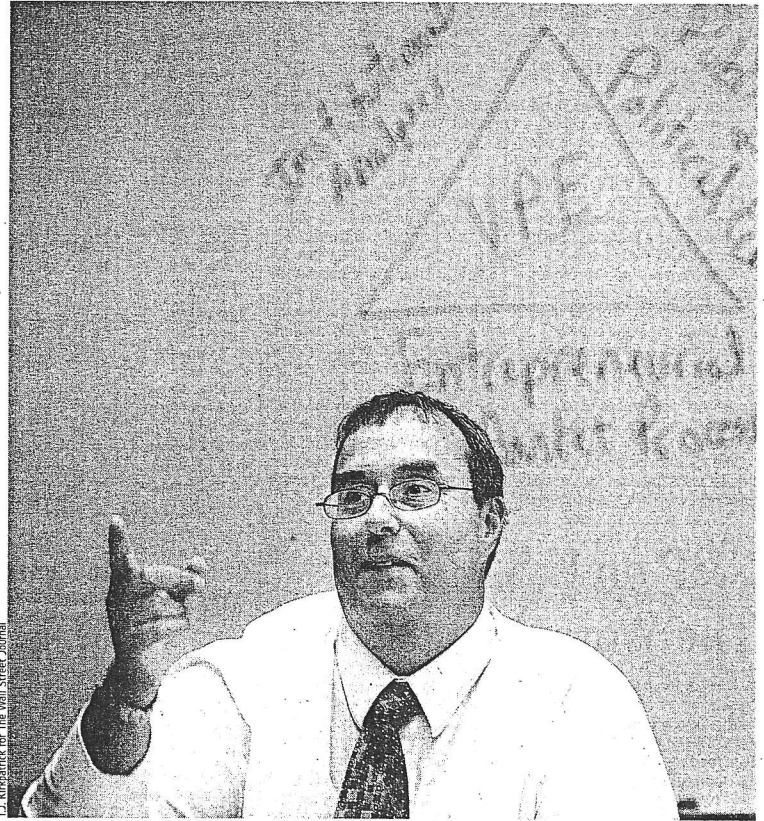
He has a tendency to ramble, interrupt and use salty language. In between the dozen books and over 100 articles he has written, he spends hours debating with students around his backyard barbecue grill.

Often, when Mrs. Boettke needs him to run errands, he makes students pile in the car with him to finish the debate. He also has trouble closing down his inner economist.

"He refuses to recycle," Mrs. Boettke says. "Something about how it actually uses more resources." He's not exactly a handyman either. "If his 'opportunity cost' is too great, he'll hire someone."

Growing up in Clark, N.J., Mr. Boettke was a mediocre student in high school. His dreams of landing a basketball coaching job led him to Grove City College in Pennsylvania in 1979. A series of injuries ended that career, but an introductory economics course started another.

It was taught by the renowned Austrian economist Hans Sennholz, who explained why government policies resulted in gas shortages, forcing



After injuries derailed his basketball dreams, Mr. Boettke got hooked on economics as a student at Grove City College in Pennsylvania. His commitment to economics is 'always on,' says his wife.

Mr. Boettke to siphon gas. "I was hooked."

Mr. Boettke went on to GMU because it was one of the few places that offered a Ph.D. program in Austrian economics. There, he focused his research on the organizational problems of the Soviet economy. It solidified his belief that any central planning of an economy, including by a central bank like the Federal Reserve, would damage the market.

Tenure Denied

In 1990, Mr. Boettke landed a job at New York University. "It was a dream come true," he says. Economics at NYU had legendary Austrian roots, but the school started to move toward a more standard mathematical approach, former colleagues say. Mr. Boettke was denied tenure in 1997, a blow to his personal ambitions.

The period also marked a low point for the Austrian field. Its

philosophical approach looked old-fashioned amid the mathematical models dominating modern economics.

And the tenures of Paul Volcker and Alan Greenspan at the Federal Reserve seemed to quell doubts about the central bank's ability to manage the U.S. economy.

But all along, the Austrians weren't so sure. Economics, they feared, was increasingly narrow and technical but not necessarily wise. They also remained skeptical of the Fed's approach to targeting stability in consumer prices.

That shouldn't be the Fed's goal, says Mr. Boettke, who a friend lured back to George Mason a year after he was denied tenure. The Fed, he says, should be to make money "as neutral as possible, like the rule of law, which never favors one party over the other."

That sometimes means letting prices fall. There's little to fear

in deflation, he adds, when it accompanies periods of strong productivity growth. However, "anytime you saw the price level starting to fall, the Fed flooded the economy with cash," he says. "And that resulted in asset-price inflation, which set us up for these crises."

Back From Serfdom

It wasn't a lack of government oversight that led to the crisis, as some economists argue, but too much of it, Mr. Boettke says. Specifically, low interest rates and policies that subsidized homeownership "gave people the crazy juice," he says.

But as much as the Austrian diagnosis may resonate now, it doesn't provide a playbook for what to do next, which could limit its current resurgence.

Mr. Hayek rightly warned of the dangers of central planning, Mr. Boettke says, but "he didn't give a prescription for how to move from 'serfdom' back."