
Karen Vaughn

Building an Austrian Approach to Public Choice

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Karen Vaughn is an academic entrepreneur and market process theorist whose contributions were formative in the building of the Austrian economics and public choice programs at George Mason University. This essay could easily be about her academic entrepreneurship alone, which is well appreciated by some, unknown to others, and absolutely critical to both the Austrian revival and the development of the Virginia school of public choice (Caldwell 2021). However, I intend to focus instead on the great merits of Vaughn’s scholarly contributions and the benefits of including them more explicitly in the canon of important market process theorists of the late twentieth and early twenty-first centuries.

Vaughn developed her academic research under strict constraints relative to many of her peers. Not only did she invest enormous energies in building the Department of Economics at George Mason University; she was also a mother during a time when there was not much institutional understanding of how to structure an academic position to enable women to raise children and still do their best work.¹

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1. Admittedly, economics departments are still struggling with this today (Goldin 2021). When I asked Vaughn about her experiences as a woman in academia in a 2020 interview, she considered herself to have generally been treated fairly or even to have had a leg up by virtue of the extreme scarcity of women. She did recount some instances in which she either experienced or observed sexism during her career, including a future department chair who implied she should be grateful to have secretarial support because

As such, Vaughn was left to develop her research when she could between meetings and raising her children. In a 2020 interview (Lemke and Vaughn 2020), she described writing on a typewriter in her living room in fits and starts when her daughter was napping or during any other quiet moment she could find.

In response to these trade-offs, Vaughn consciously chose quality over quantity in her academic pursuits. The result is a body of work that one of her former colleagues, economist Richard Wagner, described as containing “one of the highest ratios of meaningful to total verbiage of any economist currently practicing the craft.”² Her first book, *John Locke: Economist and Social Scientist* (Vaughn 1980c), was an investigation of the economic influence of the ideas of John Locke published by the University of Chicago Press. Her second book, *Austrian Economics in America: The Migration of a Tradition* (Vaughn 1994), was an intellectual history of the development of market process theory in the twentieth century published by Cambridge University Press. In addition, she wrote roughly thirty-five journal articles and book chapters in the fields of history of economic thought, economic methodology, Austrian economics, comparative economic systems, and public choice, most of them between 1972 and 2002.³ My primary contention in this essay is that these works are underutilized both in the classroom and as a springboard for further research in Austrian political economy.

In an effort to persuade others to join me in correcting this oversight, I will highlight Vaughn’s contributions in four areas: (1) the history of economic thought, (2) subjectivist economic methodology, (3) social change and learning, and (4) the political economy of morality. In the conclusion, I will offer brief remarks on how to build on Vaughn’s research, hopefully sending you off with either a newfound or a renewed appreciation for the scholarship of Karen Vaughn.

History of Economic Thought

Vaughn’s start was in history of economic thought. After focusing on the work of John Locke (Vaughn 1980c), she shifted her attention to F. A. Hayek and other market process theorists after becoming interested in the field through interactions with Larry Moss and Israel Kirzner (Caldwell 2021, 455–58). In addition to serving as president of the History of Economics Society (HES), she was editor of the *HES Bulletin*, which would later become the *Journal of the History of Economic Thought*.

Vaughn was a key contributor to the reevaluation of the socialist calculation debate that took place during the Austrian revival beginning in the 1970s

the department usually expected women—but not men—to do their own typing. Her response “was to dismiss these people as not worth my attention and just plow on” (Lemke and Vaughn 2020).

2. From the blurb on the back of a collection of Vaughn’s articles (Vaughn 2021c).

3. A bibliography of Vaughn’s work is available as an online supplement through the *Journal of the History of Economic Thought* (Caldwell 2021).

(Vaughn 1980b, 1994): “Learning about the economic calculation debate was a revelation. There really was something wrong, not only with socialist economics but possibly with neoclassical economics as well. The next twenty-five years of my career, more or less, consisted of an exercise in figuring out exactly what was wrong with both” (Vaughn 2021c, 3). Vaughn’s argument emphasized that socialist models would never work because they fundamentally misunderstood that the actual operation of a market economy is dramatically different from the simplistic constructions found in equilibrium models. She saw this issue as going beyond the calculation debate itself—as if that weren’t important enough—and speaking directly to the fact that something had gone deeply wrong in the discipline of economics (Vaughn 1980b). In the course of explicating this argument, Vaughn offered what may be one of the clearest existing articulations of Hayek’s criticisms of socialist calculation.

In addition to her work on the calculation debate, Vaughn explored and updated a wide range of controversies and theoretical developments originating in the Austrian tradition. She built on Hayek’s theories of market process and social order, including on his interpretation of the Ricardo effect (Moss and Vaughn 1986), his contributions to the socialist calculation debate (Vaughn 1980b), and his continual efforts to explain processes of social change and progress (Vaughn 1994, 1999, [2017] 2021d, [1999] 2021e). She was greatly inspired by Israel Kirzner, even when she did not agree with him. She challenged Kirzner’s theory of entrepreneurial alertness on the grounds that he did not go “far enough in pointing to the implications of the creative nature of entrepreneurship” (Vaughn [1990] 2021f, 75) and his views on equilibrium on the grounds that they were inconsistent with the idea of the market as a never-ending creative process (Vaughn 1999, 142). She wrote about the unappreciated importance of Carl Menger’s ideas, which she contended contained great potential for further development and consequently had played an important role in triggering the beginnings of the Austrian revival in the 1970s (Vaughn 1990, 1994).

Overall, Vaughn’s research in the history of economic thought demonstrates the value of Kenneth Boulding’s recommendation to stand on the shoulder of giants (Boulding 1971). The ideas of the past are not merely historical curiosities but intellectual boosts that can help us push forward to a clearer understanding of the nature of our economic and political systems without having to constantly start over from scratch. Karen Vaughn succeeded both in building on the intellectual contributions of the past and in advancing those ideas in such a way that she herself could support those to follow.

Economic Methodology and Subjectivism

After meeting James M. Buchanan and eventually playing a critical role in negotiating the move of his research group to George Mason University, Vaughn became interested in what she recognized to be a uniquely important interpretation of cost.

The idea of subjective cost is one that goes back to Menger and Friedrich von Wieser (Vaughn 1980a, 702). Despite the well-established nature of the *idea*, Buchanan argued—and Vaughn agreed—that the subjective nature of cost had not been fully integrated into the practice of economics. Rather, most economists agreed with subjective cost at an abstract level but failed to recognize its implications for economic theory and policy.

In addition to presenting an incredibly clear exposition of subjective cost and its significance for economic analysis—this theme of clarity is one that recurs throughout Vaughn’s work—Vaughn (1980a) got into the specifics of the way in which economic theory is abused when we fail to truly understand the subjective nature of cost. For instance, cost curves and a variety of other core neoclassical models presume that firms’ opportunity costs can be fully captured by financial outlays—which may or may not come close to reflecting the actual value of the next best alternative. The same is true of indifference curves and production possibilities curves, both of which fail to capture the difference between the subjective, unmeasurable costs that influence choice and the objective changes in resource ownership that occur after a decision is made or a transaction executed (Vaughn 1980a, 706).

Vaughn (1980a) also made an important argument about the implications of subjective cost for policy analysis. She argued that monetary outlays differ most from true (subjective) cost in the domain of economic policymaking, which by definition is a space where the market system is presumed to be a biased or incomplete reflection of values. Consequently, any model that uses monetary outlays to evaluate the efficiency of a policy intervention will be inherently flawed: “the further we move away from purely competitive markets, and the more government decisions preempt market decisions, the less likely will policy based on models of markets in full equilibrium lead to accurate evaluation of alternatives and to outcomes desired by the policy makers” (Vaughn 1980a, 711).

Vaughn’s insights on subjective cost are extraordinarily important for scholars, bureaucrats, and activists who attempt to use monetary outlays to evaluate the performance of economic policies. Many in the policy process place great faith in cost-benefit analysis as a tool that can prevent the adoption of inefficient policies that will generate more harm than good. However, cost-benefit analysis departs from actual subjective valuation in many ways. Not only are any monetary values used subject to Vaughn’s critique of the limited usefulness of monetary outlays in political spaces; the very choice of which factors are considered worth including in the cost-benefit analysis are determined by the subjective values of the *analyst* rather than by the individuals whose values are supposed to be under consideration. The same critique applies to the increasing pressure to develop measurable standards against which to evaluate the performance of aid agencies and other bureaucratic organizations.

The subjectivist critique leads directly to Vaughn’s critique of welfare economics (Vaughn 1996, [1995] 2021g). Vaughn argues that subjectivist economists can “investigate the economic variables that are important to people” and

“give analyses of the link between government policies and the economic consequences that flow from them” without abandoning their methodological principles (Vaughn [1995] 2021g, 150). Although more humble methods may not be able to give concrete answers—which from Vaughn’s perspective would be largely illusory anyway—the understanding they can provide will be more honest and therefore more scientific: “It seems more a religious than a scientific exercise to identify what we want the outcome of people’s actions to be in advance and then try to devise means to bring about our desired result. A scientific model should serve to help explain the world as it is, not serve as a reproach to a defective reality” (Vaughn 1996, 838). In making this argument, Vaughn continues a line of thought that began with Hayek’s critique of scientism and continues with Buchanan’s critique of the social welfare function. What Vaughn adds here, in my view, is both a way forward and the foundation for a critique that is specific to the practical influence of economics on political decision making.

Social Learning and Reform

How social learning takes place and the possibility that a society could intentionally improve itself are questions of great interest in Vaughn’s research. In Vaughn’s words, “How can man the dreamer channel his dreams into socially desirable ends?” ([1994] 2021a, 194).

There is a tension in nonviolent social reform between needing to preserve some degree of stability and the fact that institutional reform cannot occur until somebody breaks the existing rules: “Social change is a tension between human creativity and daring and human reluctance to disturb the known patterns of their lives” (Vaughn [1994] 2021a, 193). This argument builds on two observations from the work of F. A. Hayek: (1) change and uncertainty are necessary ingredients for progress, and (2) systems that organize adaptation to change (such as the role prices play in the market system) are also essential in order to preserve enough social stability for people to be able to work toward that progress.

Vaughn argues for an evolutionary interpretation of Hayek’s work as a starting point in the building of a theory of social change (Vaughn [1994] 2021a, [1984] 2021b, [2017] 2021d, [1999] 2021e). In Vaughn’s interpretation, Hayek’s vision of progress begins with the observation that every change creates a problem for somebody. Whether or not the problem is directly perceived, individuals—adapting their plans and strategies to resolve or work around the problem—begin to act according to a different set of rules from those they were following previously (again, whether those rules are explicit or tacit) (Vaughn 1999). Once even one person begins to act according to a different set of social rules, others gain the opportunity to observe the existence of an alternative option and adapt their own plans and strategies accordingly.

Vaughn ([1994] 2021a, 191) asks whether Hayekians can participate in social reform without feeling that they are committing the constructivist fallacy of using their own knowledge to supersede the knowledge that has been embedded in emergent institutions. Although Hayek does not mince words in his critique of rational constructivism and the abuse of reason, Vaughn emphasizes the caveat that Hayek's critique is intended to apply to the forced implantation of social reforms. In reality, some element of design is essential if we are to avoid "consign[ing] intelligent men to evolutionary traps and dead ends within losing cultures" (Vaughn [1994] 2021a, 201). However, the changes brought about by that design "must be gradual and at the margins" to avoid serious error and conflict (Vaughn [1994] 2021a, 201). As such, there is not such a contrast as there might seem between Hayek's critique of rational constructivism and Buchanan's constructive constitutional political economy. Rather, bringing Hayek's insights to the constitutional table could create opportunities for the development of a theory of *voluntary* reform as a productive alternative to the coercive radical change that was the subject of Hayek's critique (Vaughn [1994] 2021a, 197).

One way this argument can be interpreted is as an early theoretical foundation for the role of civil society and other voluntary organization building as an important component of the maintenance of a free society. This is one of many strands of thought in Vaughn's research that came to be picked up by later Austrian political economists, whether through her direct influence as an interlocutor and teacher or through her indirect influence as a program builder. Another concept that Vaughn connects to the Hayek-Buchanan line of research and that was picked up by later scholars is the idea of the ideological entrepreneur (Vaughn [1994] 2021a, 202). Vaughn defines the ideological entrepreneur as a person in the business of selling political consensus. As such, ideological entrepreneurs coordinate exchange in the political arena in the same way that economic entrepreneurs coordinate exchange in more traditional market spaces. These ideological entrepreneurs are often critical players in any process of political reform, and there is much yet to be learned by studying their actions both in theory and in practice.

Morality in a Free Society

Vaughn (1988) argues that even if understanding the moral and ideological reasons behind decision making is not necessary to understand market exchange, this reluctance cannot be extended to our study of political decision making without severely compromising the explanatory power of our theories. Moral considerations often play a larger role in our decision-making in political contexts, and rational calculation is problematic in a political context in a way it is not in market exchange. As such, in politics, people often do not have the ability to know—much less experience—the consequences of their actions. Moral commitments may then have a greater impact than other facets of expected cost (Vaughn 1988, 164).

This relates to a core observation of public-choice economics: before solving a problem, a reasonable collective choice process will begin with asking whether the problem is worth solving. If the difficulty of navigating a collective problem-solving process exceeds what could be gained, it is better to simply leave the problem to individuals or smaller groups to deal with on their own as best they can. When people inevitably bring their moral codes to deliberations about acceptable constitutional agreements, those moral codes will become a key determinant of which constitutional rules will be most agreeable or even efficient—if such terminology is even appropriate for constitutional conversations (Vaughn 1988, 176–78). Problems that once seemed worth solving may, under a new moral code, no longer be worth addressing and therefore no longer fall under the purview of collective choice-making processes at all. Enough moral change and a complete reevaluation of the constitutional order may be called for.

So, how should we proceed in understanding morality in a way that will be most helpful in contributing to positive political economy and to helping us understand the moral codes that people bring to collective choice processes and how they shape the range of institutional possibilities?

In charting this moral argument, we will have to take care to address the hard questions that too often have been sloughed over in the past. . . . There are always individual costs to any change in social structure, there are mean ends and noble ones, there are always injustices and accidents of fate. We live in an uncertain world which by its nature can never live up to any human conception of perfection. Hence, we need to develop a morality that accepts the fact of uncertainty, revels in it and places its faith in the ability of humans to plot a course through the unknown. (Vaughn [1994] 2021a, 204)

In short, life in a free society may require concerted efforts to restrain our impulses to eliminate all imperfection. Sometimes life's a mess, and that's okay. If all problems seem worth solving, and frictions are never acceptable, more and more will be asked of collective decision-making processes until they become impossible to contain at a level that will limit concentration of and eventual abuse of power.

Vaughn suggests that Kirzner's work on entrepreneurship is a useful starting point from which to understand the morality of the market: "By centering his moral inquiries on the role of entrepreneurship as creativity and discovery rather than on the role of prices in bringing about allocative efficiency in the marketplace, he has started from the central attribute of capitalism. I have long harbored the optimistic belief that if people truly understood the nature of the market process, they would find it to be a system that embodies some of our most cherished moral sentiments" (Vaughn [1990] 2021f, 79). This was an intuition that would go on to be supported by work such as Virgil Henry Storr and Ginny Seung Choi's (2019)

inquiry into the morality of the market and the crucial role that market systems play in disciplining bad behavior and in helping people develop their moral intuitions.

Conclusion

Karen Vaughn's account of her own career trajectory is a story of following curiosity wherever it might lead, even in the face of great uncertainty (Lemke and Vaughn 2020; Caldwell 2021; Vaughn 2021c, 1–9). Her dissatisfaction with the explanations of neoclassical economics and with the status of debates in market process theory motivated a great deal of her work in Austrian economics, public choice, and history of economic thought. In short, Vaughn's career was driven by critical thought, curiosity, and perhaps even a dash of a stubborn unwillingness to accept an inferior status quo in the face of an opportunity to make something better.

There are several directions in which Vaughn's research have yet to be extended:

1. In the field of history of thought, Bruce Caldwell suggested in a 2023 panel discussion (Boettke et al. 2023) that it was high time for a new history of the Austrian school that could pick up where Vaughn's (1994) book left off. In addition to intellectually tracing the origins of the ideas that have been most fruitful in the modern Austrian program, there is a great deal of intellectual and programmatic history that simply has yet to be written down.
2. In the field of economic methodology, the appropriate role of subjectivism and equilibrium analysis in modern economics is far from settled. Vaughn's focus on the impact of these methods on policy suggests a way forward in specifically addressing contemporary methods in economics and policy analysis and how the subjectivist critique does or does not apply.
3. With respect to social learning and reform, there is an enormous amount of both theoretical and applied work to be completed on how to think about social change in an evolutionary context. This could include the development of complexity theory (Vaughn [1999] 2021e, 174), laboratory experiments, or the elaboration of theories developed by Vaughn through the study of real-world cases of social reform.
4. Finally, although economics has tried its best to reduce morality to measurable survey responses, Vaughn's research calls for an inquiry into morality that investigates more carefully its origins, evolution, and relevance to political decision making.

To truly follow Vaughn's example, these research projects should be approached with curiosity and a willingness to adapt and change course through the learning process. The fields of history of economic thought, Austrian economics, and public choice owe a great debt to the work and scholarship of Karen Vaughn, and there is still a great deal more to learn.

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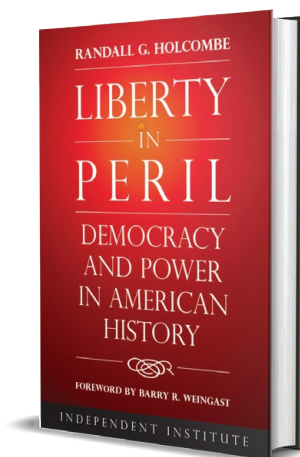
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