

ISSN 2291-5079 Volume 7 / Issue 5 + 6 2020

COSMOS + TAXIS

Studies in Emergent Order
and Organization



Symposium on Peter Boettke's
F. A. Hayek: Economics, Political Economy and Social Philosophy

COSMOS+TAXIS

Studies in Emergent Order and Organization
VOLUME 7 / ISSUE 5 + 6 2020



COVER ART:
F. A. Hayek
Attribution unknown

IN THIS ISSUE

Introduction to Symposium on Peter Boettke's <i>F. A. Hayek: Economics, Political Economy and Social Philosophy</i>	1
<i>Mikayla Novak</i>	
A Galbraithian Perspective on Epistemic Institutionalism and True Liberalism	5
<i>Theodore Burczak</i>	
Hayek's Appreciative Theory and Social Justice.	10
<i>Nick Cowen</i>	
Before Kahneman and Tversky, There Was Friedrich Hayek	20
<i>Roger Frantz</i>	
A Branch on the Mainline: Hayek's Analysis of Complex Adaptive Systems	32
<i>Gerald Gaus</i>	
<i>F. A. Hayek, Gemeinschaft and Gesellschaft,</i> Globalization and Digitalization	42
<i>Stefan Kolev</i>	
Epistemic institutionalism: Rules and Order, Complexity, and Liberalism	50
<i>Paul Lewis</i>	
You Can Take Hayek Out of Vienna.	61
<i>Adam Martin</i>	
Two Contrasting Views of People and Institutions in the Philosophical Anthropologies of Hayek and Marx	69
<i>David L. Prychitko</i>	
A Problem of Knowledge for Hayek	75
<i>Jeremy Shearmur</i>	
Response	82
<i>Peter J. Boettke</i>	
Editorial Information	87

EDITORIAL BOARDS

HONORARY FOUNDING EDITORS

Joaquin Fuster
University of California, Los Angeles
David F. Hardwick*
The University of British Columbia
Lawrence Wai-Chung Lai
University of Hong Kong
Frederick Turner
University of Texas at Dallas

EDITORS

David Emanuel Andersson*
(editor-in-chief)
National Sun Yat-sen University,
Taiwan
William Butos
(deputy editor)
Trinity College
Laurent Dobuzinskis*
(deputy editor)
Simon Fraser University
Giovanni B. Grandi
(deputy editor)
The University of British Columbia
Leslie Marsh*
(managing editor)
The University of British Columbia
Nathan Robert Cockram
(assistant managing editor)
The University of British Columbia

CONSULTING EDITORS

Corey Abel
Denver
Thierry Aimar
Sciences Po Paris
Nurit Alfasi
Ben Gurion University
of the Negev
Theodore Burczak
Denison University
Gene Callahan
New York University
Chor-Yung Cheung
City University of Hong Kong
Francesco Di Iorio
Nankai University, China
Gus diZerega*
Taos, NM
Péter Érdi
Kalamazoo College
Evelyn Lechner Gick
Dartmouth College
Peter Gordon
University of Southern California
Lauren K. Hall*
Rochester Institute of Technology
Marek Hudik*
University of Economics Prague
Sanford Ikeda
Purchase College
State University of New York
Andrew Irvine
The University of British Columbia
Byron Kaldis
The Hellenic Open University

Peter G. Klein
Baylor University
Paul Lewis
King's College London
Ted G. Lewis
Technology Assessment Group
Salinas, CA
Joseph Isaac Lifshitz
The Shalem College
Jacky Mallett
Reykjavik University
Alberto Mingardi
Istituto Bruno Leoni
Stefano Moroni
Milan Polytechnic
Edmund Neill
New College of the Humanities
Mikayla Novak
Australian National University
Christian Onof
Imperial College London
Mark Pennington
King's College London
Jason Potts
Royal Melbourne Institute
of Technology
Don Ross
University of Cape Town and
Georgia State University
Virgil Storr
George Mason University
Stephen Turner
University of South Florida
Gloria Zúñiga y Postigo
Ashford University

*Executive committee

Introduction to Symposium on Peter Boettke's *F. A. Hayek: Economics, Political Economy and Social Philosophy*

MIKAYLA NOVAK

Australian National University
 Email: mikayla.novak@anu.edu.au
 Web: <https://mikaylanovak.com>

INTRODUCTION

Since his formative studies during the late 1980s, including under the supervision of Don Lavoie, Peter Boettke has become widely recognised as an intellectual standard-bearer for classical liberal political economy, not to mention a tireless public champion of liberty for all peoples irrespective of their station in life. The scope of Boettke's contributions to our understanding of the nature and consequences of liberty are both profound and widespread, illustrating a great sense of care and devotion to his intellectual craft as well as flexibility necessary to remain relevant in a changing world.

Among Boettke's many contributions are his studies of comparative institutional analysis and institutional transitions, economic calculation and market process, economic methodology, and the history of economic thought. A most notable feature of his decades of scholarship is his unflinching interpretation of specific research questions through the Austrian, Bloomington and Virginian strands of political economy, all of which affirm the contributions of market economic coordination, social openness and limited-but-effective political action toward the well-being of humanity.

An endearing trait of Boettke is his preparedness to publicly nominate his heroes and heroines, be it in the realm of political economy and liberal activism or even with regard to his favourite sports of tennis and basketball. There are no prizes for surmising that Friedrich Hayek ranks highly amongst Boettke's intellectual heroes and role-models, and his deep appreciation for Hayek's legacy is wonderfully reflected in his latest book, *F. A. Hayek: Economics, Political Economy and Social Philosophy*.

Boettke provides a thematic investigation of the main contributions of Hayek to twentieth (and, now, twenty-first) century political economy. The appreciation of Hayek's economic contributions, with decentred plan-coordination amongst the multitudes effected by underlying condi-

tions of several property, relative prices and profit-and-loss signalling, is well canvassed in the book, which gradually builds into a most insightful discussion concerning the political, social and cultural prerequisites and supports for the fullest exercise of human liberty that fallible-yet-capable human beings can muster.

As praising to the contributions to political economy and philosophical liberalism as Hayek was, and continues to be, Boettke duly recognises that no single person can unshroud all the mysteries that pervade humanity in one lifetime. Hayek most certainly left some relatively under-explored elements of a research agenda behind, and some elements of his work had left questions with which we moderns continue to grapple with today. One of the more important questions is covered on page 26 (Boettke 2018), referring to famed correspondence between Hayek and his main intellectual rival, Keynes over the "drawing of the line" between free enterprise and planning.

There can be no doubt that in our time we, likewise, contend with this key question. The boundaries of freedom and coercion are, for many classical liberals of today, being keenly tested with regard to confronting major challenges such as inequality, climate change and, more recently, polarising socio-political tendencies and geopolitical tensions. As a matter of generic principle there seems little doubt that an efficacious way to drawing an acceptable line would rest in playing an intellectually constructive, even adventurous, role as Hayek (1949) once put it, with the proviso of keeping with cherished liberal principles such as (but not limited to) autonomy, diversity, equality, experimentation, freedom and justice, as properly understood.

Boettke's name has been prominent among the voices of contemporary classical liberals prepared to wrestle with major issues as they emerge. Two examples springing to mind, even during the past year or so, are his joint works with Paul Aligica and Vlad Tarko (2019) and with Henry

Thompson (2019). What is particularly efficacious about Boettke's book for established and aspirant scholars in the field of "Hayek Studies" is his even-handed explication of what he sees are the strengths and limitations of Hayek's work (including with respect to social epistemology, ethical philosophy and political science). In effect, the book provides a useful "road map" of potential future research to deploy Hayekian insights in the service of rendering liberal thinking both fertile and relevant.

Boettke's book has generated much publicity and interest within the academic community, and even beyond, and so it is fitting that *Cosmos + Taxis* have organised an invited group of academics, both well-established and emerging, in a symposium to critically discuss features of *F. A. Hayek: Economics, Political Economy and Social Philosophy*. In addition to the contributions from symposium participants, this special issue includes a response to the contributions from Boettke himself.

On behalf of the editorial team of *Cosmos + Taxis*, it is my honour and privilege to edit this special symposium issue. I am grateful that such a world-leading cohort of scholars has offered to invest their time and energy toward providing their reflections of Boettke's important book, and it was a delight for the editorial team to work with all participants. I trust that this issue will serve as an enduring contribution, of a catalysing nature, toward the generation of the next cohort of studies in the Hayekian frame.

OVERVIEW OF SYMPOSIUM CONTRIBUTIONS

The symposium contributions are presented in this issue in alphabetical order (with the exception of Boettke's response essay). The participants are drawn from a range of social science disciplines, aptly reflecting the breadth of investigations undertaken by Hayek during his lifetime. Included amongst the participants are specialists in economics, political economy and philosophy. A distinctive feature of the contributions is the preparedness of each participant to engage in cross-disciplinary reflections of Boettke's book.

Ted Burczak is noted for his constructive (and critical) engagement with Hayek's work from the standpoint of heterodox political economy approaches, as attested by his *Socialism After Hayek* (Burczak 2006). In his symposium essay, Burczak brings the work of John Kenneth Galbraith into the discussion about Hayek's legacy and, in doing so, highlights previously under-explored complementarities and tensions between these two major figures of twentieth century economics. One potential flashpoint for Hayekian-

Galbraithian tension, according to Burczak, concerns the oppressive effects of economic organisation which, incidentally, is hinted at by Hayek with respect to a trade-off between firm-based employment and independent proprietorship (Hayek [1960] 2011).

The versatility of Hayekian thought, as distinct from (in some senses) Hayek's own thoughts, is presented in *Nick Cowen's* essay about the potential for rectification of social injustices. Hayek is well-known for his denigration of the linguistic and philosophical bases of social justice, however Cowen illustrates that there is ample room within civil society for emergent solutions to rectify the social injustices of racism, sexism, and the like, in ways which preserve the market-oriented economic order and the rule of law. As Cowen indicates, such a frame of thinking about social justice, and the non-coercive means with which to address attendant disadvantages, remains distinctly Hayekian in its character.

Roger Frantz regards Hayek not merely as a "proto" behavioural economist but as a suitably-qualified candidate for membership amongst the "first generation" of behavioural economists, sitting alongside the likes of Herbert Simon and Harvey Leibenstein. The connection with behavioural economics is seen with regard to Hayek's works on the primacy of "pattern predictions" in social science, the distributed and tacit nature of knowledge, and the departure from complete and global rationality commonly associated with the model of *Homo economicus*. As does Boettke, Frantz draws out the implications of these themes for the conduct of public policy which, at the risk of simplification, call for the maintenance of "simple rules for a complex world" (Epstein 1995).

Evolutionary and complexity themes have been amply reflected in the growing number of Hayekian analyses of recent decades (e.g. Whitman 1998; Rubin and Gick 2004; Koppl 2009). As shown by Boettke, and in the essay by *Gerald Gaus*, such matters increasingly attracted Hayek's attention especially during the latter parts of his career. Insights from evolutionary and complexity sciences informed Hayek's non-equilibrium interpretation of economic coordination, broadening out into questions of political and socio-cultural persistence and change. Gaus suggests a more meaningful appreciation of this strand of Hayek's thought potentially brings a radical, yet more robust, defence of liberal principles.

In his last book, *The Fatal Conceit*, Hayek (1988) sharply drew a distinction between small scale, associational, life and the large-scale extended order of economic and politi-

cal affairs, warning against cross-contamination of distinct (and, seemingly, divergent) values that underpin both features of society. This intriguing feature of Hayek's sociology is the central theme of *Stefan Kolev's* essay, who considers the twin effects of globalisation and digitalisation on the perception of balance between the *micro-* and *macro-cosmos*. Kolev invites readers of Boettke's book to additionally consider the impacts of significant reform and change upon the integrity of the varied, intersecting orders comprising civil society.

Paul Lewis has made important inroads into the interpretation of Hayekian ontology and epistemology for well over a decade, and his symposium contribution continues in this vein. Lewis identifies an "epistemic institutionalism" theme in Hayek's work, which is likewise identified by Boettke, providing correspondence between lego-political rules and the socio-economic order. Economic productivity and material prosperity is contingent upon decentralised plan coordination within markets, but is also contingent upon the quality of legal and similar frameworks necessary to sustain it. Lewis invites readers to consider possibilities for using Boettke's book as a suitable platform to reinvigorate Hayekian thought in addressing contemporary challenges to liberalism.

In his contribution, *Adam Martin* interprets Boettke's book through the prisms of, first, the history of economic thought and, second, economic methodology. There is a certain tendency amongst modern Hayekians to affiliate Hayek with any number of schools of economic thought, but Martin provides us a timely reminder that Hayek's scholarship sits firmly within the Mengerian-Misesian realm of Austrian economics. Martin also invites a deeper reflection of the (oftentimes, fuzzy) distinctions between method, theory and application, and what this entails for the future of Hayek studies. Identifying the versatility of Hayek, amply reflected in Boettke's book, Martin underlines Hayek's status as a genuine, cross-disciplinary "student of civilisation" (Dekker 2016).

One of the key figures in the modern resurgence of Austrian economics, *David Prychitko*, critically compares the works of two giants in political economy: Hayek and Marx. In the view of Prychitko, a fundamental basis of difference between Hayek and Marx concerns the conception of the person—either as alienated-yet-helpless "prisoners of society" (Marx) or creative adapter to (and even reformer of) constraints (Hayek). As noted previously, Boettke expresses the sentiment that humans are fallible, yet *capable*, beings, in effect siding with Hayek. In his comparative examination

of Hayekian and Marxian thought, Prychitko recommends building upon Boettke's book with regard to philosophical anthropology and the history of economic thought.

As paradigmatic as Hayek's thought has been in the social sciences there remain many unanswered questions concerning the applicability of his stated ideas (or those more recent ones, of Hayekian persuasion) for economic, political and social reform. The political philosopher, and exponent of PPE (politics, philosophy, and economics), *Jeremy Shearmur* contends that Hayek's (and, by extension, Boettke's liberalism) is reliant on key theoretical claims potentially translatable into practical acceptance. As recent trends in public administration worldwide have illustrated, explication of theory (e.g. liberal primacy of rule of law in political ordering) does not necessarily equate with its practical implementation. Shearmur pleads with scholars to reconsider the value of Hayek's intellectual contributions to address contemporary political challenges.

CONCLUSION

As have other luminaries of political economy, such as Adam Smith, Carl Menger and Ludwig von Mises, Hayek continues to speak, to our extended present, in a variety of instructive fashions (Boulding 1971). The Hayekian influence on political economy is fundamentally propounded by a burgeoning research literature produced by modern academics, as mentioned previously. It is also important to note the engagement with Hayek's ideas by staffers of think-tanks, economic and financial media commentators, bloggers and social media users. We consider that the contributions to this symposium most capably stand with the best examples of Hayek scholarship of recent years.

Within the academic realm Peter Boettke has been a primary exponent in promoting an understanding of, and refining, Hayek's work for modern audiences. Boettke's book *F. A. Hayek: Economics, Political Economy and Social Philosophy* continues his fine record in these respects, and is a necessary addition to the collections of those interested in the fundamental bases of material betterment, social harmony and effective public governance.

REFERENCES

- Aligica, P. D., Boettke, P. J. and Tarko, V. 2019. *Public Governance and the Classical-Liberal Perspective: Political Economy Foundations*. New York: Oxford University Press.
- Boettke, P. J. 2018. *F. A. Hayek: Economics, Political Economy and Social Philosophy*. London: Palgrave Macmillan.
- Boettke, P. J. and Thompson, H. A. 2019. Identity and off-diagonals: how permanent winning coalitions destroy democratic governance. *Public Choice* (forthcoming), doi: <https://doi.org/10.1007/s11127-019-00683-7>.
- Boulding, K. E. 1971. After Samuelson, Who Needs Adam Smith? *History of Political Economy* 3 (2): 225-237.
- Burczak, T. A. 2006. *Socialism after Hayek*. Ann Arbor: University of Michigan Press.
- Dekker, E. 2016. *The Viennese Students of Civilization: The Meaning and Context of Austrian Economics Reconsidered*. New York: Cambridge University Press.
- Epstein, R. A. 1995. *Simple Rules for a Complex World*. Cambridge: Harvard University Press.
- Hayek, F. A. 1949. The Intellectuals and Socialism. *The University of Chicago Law Review* 16 (3): 417-433.
- _____. [1960] 2011. *The Constitution of Liberty: The Definitive Edition*. In: Hamowy, R. (ed.) *The Collected Works of F. A. Hayek*, Vol. 17. Chicago: University of Chicago Press.
- _____. 1988. *The Fatal Conceit: The Errors of Socialism*. In: Bartley, W. W. III (ed.) *The Collected Works of F. A. Hayek*, Vol. 1. Chicago: University of Chicago Press.
- Koppl, R. 2009. Complexity and Austrian Economics. In: Barkley Rosser, J. Jr. (ed.) *Handbook of Research on Complexity*. Cheltenham: Edward Elgar, pp. 393-408.
- Rubin, P. H. and Gick, E. 2004. Hayek and Modern Evolutionary Theory. *Advances in Austrian Economics* 7: 79-100.
- Whitman, D. G. 1998. Hayek contra Pangloss on Evolutionary Systems. *Constitutional Political Economy* 9 (1): 45-66.

A Galbraithian Perspective on Epistemic Institutionalism and True Liberalism

THEODORE BURCZAK

Denison University
 Email: burczak@denison.edu
 Web: <https://denison.edu/people/theodore-burczak>

Near the end of his book on *F. A. Hayek*, Peter Boettke advocates for a “true liberalism” growing out of Hayek’s thought that is “most conducive to human flourishing” (Boettke 2018, p. 252). A consistent theme in Hayek’s oeuvre is a careful investigation of what Boettke calls “epistemic institutionalism.” For Boettke, it is Hayek’s exploration of epistemic institutionalism that helps produce this true liberalism. This short paper sketches a counterargument that Hayek’s epistemic institutionalism is hobbled, making Hayekian liberalism itself truncated and “false,” more akin to a species of conservatism. A genuine liberalism based on a more thoroughgoing epistemic institutionalism is far more progressive than the typical Hayekian is likely apt to accept.

For Hayek, the primary problem for social theory is to understand how societies can be organized to best coordinate the actions of diverse and dispersed individuals, each of whom is epistemically limited with partial, tacit, potentially unique, and often erroneous knowledge. In his famous “The Use of Knowledge in Society” essay, Hayek ([1945] 1948) modernizes the defining insight of Scottish enlightenment thinkers that diverse, dispersed, creative, and bumbling individuals can be led by price signals in competitive markets, when lured by profit and repelled by losses, to take actions that will coordinate their separate behaviors to yield wealth, innovation, and a rising standard of living. Under the right institutional framework, market prices serve as a “system of telecommunications” (Hayek 1948, p. 87) serving a coordinating function. In a nutshell, the right institutional framework requires private property, freedom of contract, a legal and enforcement system constrained by the rule of law that secures property and enforces contracts, and democratic government—limited in scale and also in scope by the rule of law—to change rules when they evolve in a wealth-reducing manner, to provide public goods, and to limit externalities when doing so has greater benefits than costs. This is

the institutional framework that best enables epistemically limited individuals to strive and flourish.

This is a seriously truncated vision. A “true” liberal recognizes that a “valid image of the modern economy” is not one where most individuals are responding to price signals that emerge from competitive markets (Galbraith 2001, p. 118). People shaping tin are not typically working in a small shop, buying raw material from and selling their product directly into the global market. Much more likely, the metal worker is employed by a large organization with production units spread around the globe, where flows of sheet metal are directed by administered prices and decisions of purchasing managers. A “true” liberal embraces the reality that we live in an organization economy more than we live in a market economy (Simon 1991).

Hayek’s “Use of Knowledge” essay emphasizes individual market actors with specific knowledge about the circumstances of time and place. In his book *The New Industrial State*, Galbraith starts by asking how scientific knowledge is applied in modern, large-scale production processes. However, this difference in knowledge types—contextual knowledge versus scientific knowledge—is not crucial since successful application of scientific knowledge necessarily depends upon the context of time and place. The critical point for Galbraith is that scientific knowledge grows by educating separate individuals narrowly but deeply about some specific aspect of reality, whether it is the adhesive qualities of different paint types or the weight and durability of different kinds of metal. “Technology means the systematic application of scientific or other organized knowledge to practical tasks. Its most important consequence ... is in forcing the division and subdivision of any such task into its component parts” (Galbraith 2007, p. 14). “Technology requires specialized manpower,” (Ibid, p. 18) both in terms of people educated in particular scientific fields and

people who are expert at organizing and planning the activities of the scientists.

For Galbraith, organization and organization specialists exist precisely to perform a function that markets are not always able to realize: the coordination of dispersed knowledge. “The inevitable counterpart of specialization is organization. This is what brings the work of specialists to a coherent result” (Ibid, p. 19). As Galbraith puts it in one of his Hayekian moments, what happens inside a large firm is that “[f]ragments of information, each associated with a person, are combined to produce a result which is far beyond the capacity of any one of the constituent individuals” (Ibid, p. 426). But why is it that markets are not always able to combine the fragments of information by guiding separate individuals, with profit incentives and threats of loss, to act in a coordinated fashion? Why not build a car with the paint engineer selling his knowledge, and the metallurgic engineer selling her knowledge, and so on, to various painters and metal fabricators, who then in turn sell the product of their activities to an automobile entrepreneur, who orchestrates the time-consuming production of a car through a long series of sequential exchanges?

Very much like Hayek, Galbraith maintains that increases in productivity require time-consuming, roundabout production methods, which involve large investments in specialized, heterogeneous tools and human capital. But apparently unlike Hayek, Galbraith believes that there are often difficulties associated with coordinating the various stages of production through market exchange. For one, markets for specialized capital and talent are not competitive and are thus subject to uncertainties arising partly from the changing circumstances of time and place and partly from the possibility of strategic bargaining. Galbraith appeals to what Oliver Williamson (1985) was later to call “asset specificity:”

[T]he short-run supply price of highly specialized materials, components and labor is inelastic. So is the demand for highly technical products. In the first instance large (and punishing) increases in prices will, in the relevant time period, bring no added supply. In the second case large (and equally punishing) decreases will bring no added customers (Galbraith 2007, p. 28, fn. 1).

While Galbraith focuses on the difficulties that change and uncertainty pose for market coordination of specialized talent and tools, Williamson emphasizes that there is

considerable room for both buyers and sellers to engage in opportunistic behavior, which can threaten the ultimate realization of consumption goods that can be profitably sold, whenever specialized labor and capital must be coordinated in a time-consuming, sequential production process. Organization reduces these market uncertainties, making roundabout, technically demanding production increasingly possible and desirable.

Galbraith argues that the coordination of fragmented technological knowledge in time-consuming production processes requires dialogic forms of communication, not just transactional forms of communication, in which individuals can test through conversation how their separate ideas might work together. These dialogues are facilitated by organization, not market exchange. While Galbraith agrees that entrepreneurs are able to create new enterprises of which they are in charge, managing a hierarchical structure under their authority, when a firm begins to grow, at some point the knowledge requirements of organization by central authority become too large. The firm slips from the control of the entrepreneur who initiated the firm to the technostructure.

Galbraith coins the term technostructure to refer to all the knowledge workers inside the large firm, as distinguished from the production workers engaged in routine labor relying primarily on physical effort. The technostructure includes the scientists, engineers, designers, legal and financial analysts, marketers, human resource managers, etc., who apply some sort of skilled, scientific, and technical knowledge in the production process. Galbraith emphasizes that members of the technostructure typically work in groups or teams; it “is an apparatus for group decision-making—for pooling and testing the information provided by numerous individuals to reach decisions that are beyond the knowledge of any one” (Ibid, p. 96). This group dynamic cannot be orchestrated from above and, to be effective, “requires... a high measure of autonomy” (Ibid.). In a nutshell, Galbraith proposes that large firms make use of knowledge by committees. As he describes it, “business organization [is] a hierarchy of committees. Coordination, in turn, consists in assigning the appropriate talent to committees, intervening on occasion to force a decision, and as the case may be, announcing the decision or carrying it as information for yet further decision by a yet higher committee” (Ibid, p. 78). The planning that takes place in the large firm is thus not centralized, entrepreneurial planning but a type of decentralized planning by the technostructure in which

the entrepreneur's production ideas are no longer governing.

While Galbraith argues that the technostructure makes most of the relevant production decisions, those individuals are not generally profit recipients. Because members of the technostructure have little monetary incentive to use their knowledge to produce maximum profit for someone else's benefit, Galbraith believes it is not accurate to describe large firms as profit maximizing. As Herbert Simon expresses the issue, in a manner congruent with Galbraith's perspective, a theory of organization "with an unrealistic utility function does not provide a basis for understanding real organizations" (Simon 1991, p. 30). Instead of profit maximization, Galbraith asserts that what most interests the technostructure is to "maximize its success as an organization" (Galbraith 2007, p. 153). Organizational success from the technostructure's perspective is better ensured by growth in sales and security of employment. Bankrupt firms achieve neither, so Galbraith does not deny that the technostructure must be concerned with achieving accounting profits. But an accounting profit-making constraint does not prohibit the technostructure from pursuing other objectives, while having to maximize the economic profits accruing ultimately to stockholders gives no such degrees of freedom.

In their willingness to pursue organizational success, the technostructure is motivated by something other than strict self-interest, which by itself could lead opportunistic individuals to exercise as little effort or to convey as little knowledge as possible consistent with continued employment. Such opportunistic behavior would especially be problematic for successful organization when the relevant knowledge guiding the activities of the technostructure is not accessible to high-level management. Following James March and Herbert Simon (1958), Galbraith argues that fortunately for organizational success a member of the technostructure is in large part motivated by identification, not self-interested monetary calculation: "he finds the goals of the group superior to his own previous purposes and so he joins" (Galbraith 2007, p. 165). Good organization creates a culture to which knowledge workers seek to belong, to contribute, and to improve. Simon argues similarly: "authority and organizational identification should help explain how organizations can be highly productive even though the relation between their goals and the material rewards received by employees, if it exists at all, is extremely indirect and tenuous" (Simon 1991, p. 14). If Galbraith, March, and Simon are correct, the successful use of knowledge in large organizations paradoxically depends upon an aspect of hu-

man behavior that Hayek argues must be suppressed for a liberal social order to be possible, what he calls the emotions of tribal society (Hayek 1976).¹

Hayek sees the success of capitalism growing out of the discovery that men could live "together in peace and to their mutual advantage without having to agree on common concrete aims ... bound together only by abstract rules of conduct" (Ibid, p. 136). For Hayek, capitalist success is contingent upon moving people away from the habits of tribal society.

[W]ithin an extended order, solidarity and altruism are possible only in a limited way within some subgroups, and that to restrict the behavior of the group at large to such action would work against coordinating the efforts of its members [via the spontaneous ordering forces of market exchange]. Once most of the productive activities of members of a cooperating group transcend the range of the individual's perception, the old impulse to follow inborn altruistic instincts actually hinders the formation of more extensive orders (Hayek 1988, pp. 80-81).

Hayek believes tribal commitments lead to a socially corrosive desire for social justice, and they must be minimized for people to accept the unpatterned outcomes of the market process. Yet Galbraith's point is that the effective use of knowledge in large organizations requires the instincts of the small band. Effective use of knowledge in society necessitates, in some contexts, self-interested, profit-seeking market exchange that adheres to end-independent rules and, in other contexts, solidaristic emotions that check self-interest and encourage individuals to participate enthusiastically as part of a team, even though they may not be the direct beneficiaries of the product of their efforts.

These conflicting perspectives, each tied to contrasting views about the kinds of human motivation necessary for the effective use of knowledge in society, lead to divergent proposals about the role of government in creating the conditions for human freedom. Galbraith asks his readers to question "a doctrine that celebrates individuality," like Hayek's classical ("false") liberalism, when it ultimately "provides the cloak for organization" (Galbraith 207, p. 270). His point is that in a technologically complex world, limiting government to the roles of protecting property rights and facilitating exchange does not best serve the expansion of individual freedom. In this world, many people spend comparatively little time in markets relative to

the time in which they are engaged in organizations. The Hayekian metaphor of an all-encompassing market as telecommunications system facilitating the use of knowledge in society thus has limited applicability in the development of a political theory of freedom—a true liberalism—when organization is ubiquitous.

To use scientific knowledge effectively in society often requires large-scale organization and the individual's adoption of (or submission to) the organization's goals as his or her own. Galbraith helps us to see that organizational success in a capitalist economy, inasmuch as it depends upon individual conveyance of knowledge in production, taps into and requires a type of tribal orientation from the knowledge workers in the firm, in which self-interest is suppressed in order for individuals to be willing to make meritorious contributions to the team. Identification with the goals of organizational survival and growth leads to an unquestioned acceptance of economic growth as the primary social purpose and public policy that promotes organizational freedom and autonomy to pursue a growth path. But organizational autonomy and individual autonomy are not identical.

In Hayek's liberalism, there is a constant tension between market and state, between self-interested exchanges among individuals that spontaneously produce order and tribal attachments to solidarity, fairness, and social justice that threaten this spontaneous order when they are expressed through governmental mechanisms. Government policies that are independent of any particular ends, universally applicable, impartially enforced, and well announced—i.e., the rule of law—are consistent with protection of private property and its free exchange and incompatible with tribal urges for distributive justice and defenses of special interests. The rule of law is, in Hayek's view, the linchpin of individual freedom and the basic framework to promote individual use of knowledge and the spontaneous coordination of self-interested action through competitive exchange. "The rise of the ideal of impersonal justice based on formal rules has been achieved in a continuous struggle against those feelings of personal loyalty which provide the basis for tribal society but which in the Great Society must not be allowed to influence the use of the coercive powers of government" (Hayek 1976, p. 143).

For Galbraith, on the other hand, the predominant tension is between individual and organization, and he believes that the state can possibly serve as a mediating force. Galbraith is explicit about this:

People read F.A. Hayek's *The Road to Serfdom* and similar rescripts against the state. It became part of popular thinking that there was a conflict between individual liberty and the function of the state, that the state was a menace to liberty... Well, I set out quite deliberately... to do what I could to reverse that train of thought (Galbraith 2004, pp. 49-50).

Modern productive organization uses marketing and advertising to cast the good life in terms of expansive consumption and requires tribal commitments from employed individuals to make best use of their knowledge in production to satisfy this consumption imperative. Yet Galbraith, like Hayek, also seeks to liberate modern people from the tribe. For Hayek this liberation happens through market exchange and freedom from the state, but for Galbraith individual liberation requires, to the extent that it is possible, freedom from organization by reducing its role in shaping modern life.

Government policy should thus not be a slave to unimpeded corporate growth and instead act as a countervailing force to organization by encouraging more individualist forms of personal development. Galbraith argues for social policy to harness the modern productive apparatus to liberate us for lives of more educated leisure; for more flexible, fulfilling work experiences; and for a more cultivated, aesthetic individual sensibility and social environment. Galbraith would have government policy take an extensive role in advancing the arts and liberal education and in the expansion of leisure and socially provided goods. A liberalism based upon a thoroughgoing epistemic institutionalism should take Galbraith's position seriously. Simon goes so far as to suggest that a theory of organizations, like the one Galbraith builds using Simon's epistemic foundations, "calls for reexamining some of the classical questions of political economy" (Simon 1991, p. 43). But Galbraith's epistemic institutionalism and corresponding liberalism does not appear even as a foil in Boettke's *F.A. Hayek*. Perhaps it would be considered if Galbraith's perspective on the essential roles that organization and tribal motivations inside organization play in facilitating the use of knowledge in society were better understood.

NOTES

- 1 Albert Hirschman's (1970) analysis of the role that "loyalty" plays in coordinating human behavior is a cousin of Galbraith's and March and Simon's arguments for the importance of identification as a motivating factor in human action.

REFERENCES

- Boettke, P. J. 2018. *F. A. Hayek: Economics, Political Economy and Social Philosophy*. Basingstoke: Palgrave Macmillan.
- Galbraith, J. K. 2001. *The Essential Galbraith*. New York: Houghton Mifflin.
- _____. 2004. *Interviews with John Kenneth Galbraith*. Stanfield, J. R. and Stanfield, J. B. (eds.). Jackson: University Press of Mississippi.
- _____. 2007. *The New Industrial State*. Princeton: Princeton University Press.
- Hayek, F.A. [1945] 1948. The Use of Knowledge in Society. In: Hayek, F. A. (ed.) *Individualism and Economic Order*. Chicago: University of Chicago Press, pp. 77-91.
- _____. 1976. *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy*, Vol. 2, *The Mirage of Social Justice*. London: Routledge.
- _____. 1988. *The Fatal Conceit: The Errors of Socialism*. In: Bartley, W. W. III (ed.) *The Collected Works of F. A. Hayek*, Vol. 1. Chicago: University of Chicago Press.
- Hirschman, A. 1970. *Exit, Voice, and Loyalty*. Cambridge: Harvard University Press.
- March, J. and Simon, H. 1958. *Organizations*. New York: Wiley.
- Simon, H. 1991. Organizations and Markets. *Journal of Economic Perspectives*. 5 (2): 25-44.
- Williamson, O. 1985. *The Economic Institutions of Capitalism*. New York: Free Press.

Hayek's Appreciative Theory and Social Justice

NICK COWEN

University of Lincoln
Email: ncowen@lincoln.ac.uk

Peter J. Boettke's *F.A. Hayek: Economics, Political Economy and Social Philosophy* (2018) is an impressive synopsis and powerful defense of Hayek's scholarship framed as a project of epistemic institutionalism (cf. Boettke 2002; Boettke and Candela 2017). One claim that I find particularly enlightening is that Hayek offers an appreciative theory of market institutions, in opposition to the formal descriptions and proofs of mainstream economics (Boettke 2018, pp. 107-108; Boettke and Coyne 2009, p. 12; Nelson and Winter 2004, p. 47). This interpretation is important, but not because it's the only way of reading Hayek. Rather, the lack of an appreciative perspective explains the various ways that Hayek's insights have been misconstrued. As Boettke (2018, p. 97) documents, neoclassical economists have at times claimed to build on Hayekian insights or inquiry. But in the process of formalization they have lost the essence of Hayek's discovery: that a great deal of relevant information for economic decision-making can only be discovered through processes of trial and error (Boettke 1997; Boettke and O'Donnell 2013).

Boettke focuses on Hayek's engagement with and reception among economists. However, examples of these difficulties in translation also crop up among political theorists who have engaged with Hayek. Scholars of politics on the left have generally conceived Hayek as an intelligent 'enemy' who can help clarify the feasibility of some of their moral commitments but who cannot participate in the same project of establishing a truly just society (Griffiths 2014). Nevertheless, there have been several attempts, increasingly successful, to integrate Hayekian insights into normative political philosophy (Schmidtz and Brennan 2012; Tomasi 2012a, 2012b).

My aim, therefore, in this essay is to contribute to Boettke's project by bridging the gap between the Hayekian critique of social justice and its reception among normatively committed theorists and philosophers. I begin by summarizing some inter-related cases proposed by political theorists for rejecting Hayek's critique of social justice. I add to Boettke's resources some context around Hayek's

epistemology that establishes quite how deep the problem of coordination goes. I explain the necessary role that appreciative theory plays in our way of understanding the relationship between social morality and society. I then explain how appreciative theory goes some way to answering Hayek's critics. This highlights the possible overlap between Rawlsian and Hayekian approaches to public policy. Finally, I outline how a positive research program might combine Hayekian insights with the pursuit of social justice, or at the very least the progressive amelioration of the conditions of the relatively disadvantaged.

CRITICS OF HAYEK ON SOCIAL JUSTICE

Students of political philosophy might not often encounter Hayek. Nozick (2013) has tended to be treated as the adequate representative of "right-wing" political philosophers (Schmidtz and Brennan 2012). However, Hayek does make an important appearance in Swift's *Political Philosophy: a beginner's guide for students and politicians* (2012, pp. 20-23), as the paradigmatic skeptic of social justice who inspired British Prime Minister Margaret Thatcher's free-market agenda of the 1980s. Proponents disagree on the content of social justice. However, they agree that political institutions should be evaluated on the way they distribute essential resources, status and opportunities to individuals and groups in a community. This could be a narrow demand that everyone has enough resources to live reasonable lives; or a broader claim for distributive equality; or a presumed baseline for equality that permits some inequalities only under specific conditions.

Hayek (1976), by contrast, claims that social justice is meaningless, atavistic (the product of an old intuitive, indeed religious, conception of morality), unfeasible, and incompatible with a market economy. Swift concentrates his critique on Hayek's argument for treating social justice as a category mistake, one that imputes responsibility to an amorphous 'society' where no individual agent can be held responsible. Swift responds that it is trivial that we can be

collectively responsible for the outcomes produced or permitted by political decisions. Shared responsibility does not mean no responsibility.

Swift's summary reflects a common starting point of several criticisms of Hayek in political thought. Gamble (2013) suggests that Hayek's insistence that only intentional acts are capable of injustice ends up impoverishing his broader theory. Thus, with only a negative notion of liberty and a narrow definition of coercion (only possible through deliberate acts), Gamble suggests that people's choices and opportunities within a Hayekian framework can end up systematically restricted just as long as the process producing it is unintended. Johnston (1997) argues that Hayek fails to recognize that the ends of social justice can be pursued through indirect means rather than brute interventions and that he underestimates the contribution of market institutions themselves to generate oppressive social environments.

Tebble (2009) points out that the claims of meaninglessness and atavism may make some sense against those imputing justice to market outcomes alone but that correcting them after the fact to bring the results into line with social justice can still be meaningful. Moreover, Tebble claims that Hayek falls into contradiction by permitting a minimal welfare state but on moral grounds that he dismisses elsewhere (cf. Plant 2010, p. 218). To avoid contradicting himself, Hayek would have to pursue a much more radical argument for *laissez-faire* involving rigorously competitive and decentralized solutions to welfare.

Lukes (1997) similarly turns aspects of Hayek's critique on itself. He suggests that just because a moral norm, like social justice, has non-rational, even religious, origins does not render it meaningless. Indeed, it could be its very ancient origins and enduring attraction among people's sense of morality that explains why you need a conception of social justice for minimal political legitimacy to obtain. Moreover, he argues that insisting on abstract, general rules based on formal equality in the place of social justice is hardly a sure escape from *de facto* coercion and restraints on basic liberties (Lukes 1997, p. 77). Williams (1997) argues that Hayek never successfully separates his account of the rule of law from his undefended but controversial theory of economic rights.

Lister (2013, 2017) draws attention to Hayek's and Rawls's (1971) common inspiration in Knight (1921) about the ineliminable uncertainty of economic life. Both, as a result, avoided making distributive claims with regards to desert. Lister argues that once a supposed conceptual diver-

gence between Rawls and Hayek is collapsed, contemporary Hayekians are left defending their position based on controversial empirical claims about the contribution of competitive markets to improving the condition of the least well-off.

The overall appraisal of Hayek is that he voices reasonable concerns about some peripheral arguments of social justice theorists. But his fundamental and aggressive rejection of social justice is unwarranted due to his own position on what governments may do and his explicit support for a Rawlsian approach. This characterization is plausible when reading Hayek's rather polemical attacks on social justice in isolation. Indeed, as Boettke (2018, p. 2) acknowledges, there are moments where Hayek's stridence undermines his aims, and this is arguably one of those moments. Nevertheless, there is a Hayekian response once his position is understood within his broader project of epistemic institutionalism. This account can explain why some minimal, indeed arguably quite substantial, provisions of a welfare state can be supported wholeheartedly from within Hayek's approach while still ruling out more systematic forms of intervention in the economic realm. It can also help us understand in a more positive fashion how exactly to pursue successful public policy reform.

MORAL THEORIZING, SPONTANEOUS ORDERS AND APPRECIATIVE THEORY

A key part of the challenge of bridging the gap between Hayek's epistemic institutionalism and theories of social justice comes from a different method to normative theorizing. Many scholarly proponents of social justice, especially those working within or influenced by analytic philosophy, take the task of political philosophy to be a subset of what they describe as applied ethics. Generally, the task of applied ethics is to refine moral judgements and intuitions in order to establish and defend coherent moral principles based on rational justification (Knight 2017; McDermott 2008).

For some theorists, famously Cohen (2003), guiding moral principles can be established without much (if any) reference to empirical facts. Other theorists are more motivated to include sociological facts, however they tend to arise as feasibility constraints on moral theories (Swift and White 2008). Normative theorists treat the intuitions, judgements and principles that we find deployed in ordinary language as the building blocks of more systematic moral philosophy. It is presumed that ordinary ethical discussion, analytically

refined through philosophical deliberation and reflection, will eventually point to meaningful, coherent principles. It is the role of a different kind of theorist to inquire about the ontological status of moral principles and judgements rather than their content. Out of necessity, moral philosophy precedes on the assumption that they have some underlying reality (McDermott 2008, p. 16).

For Hayek, the point of departure is different. His theoretical endeavor is chiefly to explain a puzzle: the remarkable capacity for humanity to engage in cooperation at the scale of a political community despite widespread, manifest ignorance. Hayek's answer is that liberal institutions of private property and voluntary contract under the rule of law permits economic coordination. Liberal institutions achieve this by generating the social circumstances whereby people can make use of knowledge that is not their own (Hayek 1937; Kiesling 2015). These institutions permit a competitive market and price system to emerge that allows local knowledge of scarcities and demands for goods, services and, critically, intermediate factors of production (capital) to be conveyed throughout an entire society (Lavoie 1986). Without such a regime in place, individuals engaging in economic activity have no way of knowing whether their efforts are making a genuinely productive contribution to a community or are wasting valuable resources. With such institutions in place, individuals and firms receive continuous feedback, through the realization of profit and loss, allowing them to continuously adjust their activity to changing availabilities of resources and consumer preferences.

The result is an example of what Hayek identifies as a spontaneous order (D'Amico 2015; Hayek 1945; Menger 1985, p. 146). Market institutions permit individuals to carry out their own plans within a framework of established legal rules with the aggregate result (if not necessarily the intention of those working within the framework) of producing socially desirable, though not assuredly optimal, outcomes. As Boettke (2018, p. 189) describes:

The economic process is neither an evolutionary natural selection process that assures the survival of the "best" or "fittest," nor is it a chaotic and random walk. The discovery of the competitive market is a learning process- a process of trial and error and experimentation in which the key component is the ability to reveal error and motivate the discovery of new knowledge about economic opportunities... The superiority of the market process lies not in its ability to produce optimal results, but rather in its ability to mobi-

lize and effectively use knowledge that is dispersed throughout the economic system.

Although never perfect, the outcomes of this market process, that Hayek also calls *catallaxy*, are more complex and make better use of resources than any conceivable centralized arrangement developed through rational planning.

Some of this account is conceivable (even plausible) to theorists of social justice when applied narrowly to economic activity itself. Like the neoclassical economists who sought to formalize Hayek's explanatory framework, they can recognize the informational challenges that market institutions appear able to overcome at least in the supply of private goods (Carens 1981; Miller 1990). They can propose a role for markets that a sufficiently informed citizenry would endorse, as Rawls (1999, p. 240) did when lauding the 'allocative' function of markets (while contesting their distributive role). The implication is that the institutions of the market economy can be established, and indeed fine-tuned, in order to achieve common ends but must be carefully constrained so as not to generate too much instability.

From a Hayekian standpoint, however, recognition of the beneficial impact of activity taking place within markets is only the beginning of a much broader account of social order that includes many other institutions, including law, language, social norms and morality itself (Albrecht 2017, p. 357; cf. Ostrom 1993). From this more radical social evolutionary standpoint, the description of spontaneous order does not apply only to the results of activity within a framework of rules, but to the emergence of the rules themselves. Norms and institutions are principally developed as a result of human action but not design or individual intention.

It is worth emphasizing how fundamental the epistemic challenge is for Hayek. He argues that our basic sensory faculties are constitutionally incapable of accessing putative real entities in an objective physical universe (Caldwell 2004; Hayek 1952). Instead, we make sense of irreducibly complex 'concrete orders' that constitute our raw holistic sensory experience through the generating, testing and refining of abstract orders (Hayek 1964). These categories are simplified models that help us pick out relevant and salient features of phenomenal reality. Because they cannot ever represent complete knowledge of reality, they are constantly open to error-correction and adaptation in the face of novel phenomena. An interesting feature of this account is that human minds themselves bear a resemblance to spontaneous orders. Cognition of our surroundings emerges not through systematic reflection on individuated sense-da-

ta but through adapting our categories to observable patterns of phenomena through constant trial and error. What eventually takes the form of reason and logic is an emergent property resulting from the mind interacting with the world and incrementally developing more refined abstract categories and understanding of the temporal and structural relationships between phenomena.

On this epistemically austere account, there is no reason to expect a direct correspondence between the concepts we use, especially ordinary language, and an objective reality. Instead, our conceptual frameworks are inter-subjective: patterns, categories and rules constituted through social interaction and the resulting practices (Boettke and Storr 2002). Our theoretical frameworks for morality are no exception to this general description. From this perspective, exploring morality without inquiring as to its relations with other features of social reality is unlikely to be fruitful. The concepts that make up our moral frameworks are forged through continuous interaction and adjustment between mind and culture (Boettke 2018, p. 190). Unlike social interaction and exchange within an established market framework where people have some assurance of individual security, there can be no expectation that the results of human interaction in general will be broadly beneficial (cf. Leeson and Boettke 2009). There is no teleology in Hayek's account of institutional emergence and a Hobbesian state of nature is historically more common than a liberal social order. Nevertheless, the role of social institutions, and explanation for their emergence and stability in the absence of a single determining agent, must be established before their performance for facilitating wellbeing can be evaluated.

Social morality and law are part of our abstract ordering that, once it emerges, allows us to impose some predictability on our own conduct and the expectations we have of others. This is what makes the liberal institutions of private property under the rule of law different from other kinds of social rules. These institutions take the complex, variegated social and natural phenomena we encounter and categorizes them in such a way that we can make general predictions about what we may or may not do in social situations. It makes the social world more modular, allowing us to understand what sort of conduct counts as legitimate in our own protected sphere of activity and areas of competence (Cowen forthcoming). Once baseline expectations are settled in an environment where experimentation is permitted and the results of successful productive experiments protected, individuals can occupy themselves in continuously

improving their subjective conditions (and that of others) while maintaining their autonomy.

How exactly can this emergent account of a cooperative social order gain credibility? This is the peculiar role that appreciative theory plays. One of Hayek's recurring themes is to make use of reason to identify the limits of reason. From Hayek's standpoint, we have limited, defeasible knowledge of our immediate environment that can become more refined through trial and error learning. We have even more constrained access to other relevant information about our wider social environment and must rely almost completely on the indirect knowledge. We can never be well-situated to understand society with precision. We cannot rely on applying proofs of systematic relationships between well-defined social conditions and factors, because the way we conceptualize those factors is necessarily simplified and unable to contain all the complex social phenomena we are trying to explain.

What we have instead are informal models (or analytic narratives), often ones with various kinds of empirical evidence and thick description to motivate them. The conclusions of appreciative theory emerge out of the careful, open-ended observation of patterns of relations seen in comparisons between contemporary and historical societies that show in which conditions theories are likely to be applicable and when they are not (Boettke et al. 2013). One inspiration for this kind of method is the conjectural history that characterizes the Scottish Enlightenment enterprise (Höpfel 1978). This certainly does not imply ignoring systematic empirical data when it is available or formal models, especially as 'foils' to establish the limit conditions of particular claims (cf. Albrecht and Kogelmann 2018). It merely proposes that any theorizing about reality begins with the contestable division of subjective phenomena into categories that are subject to revision, especially about the domain in which the theory applies.

IMPLICATIONS OF APPRECIATIVE THEORY FOR SOCIAL JUSTICE

Appreciative theory is not a Panglossian enterprise. It is a realistic perspective that recognizes the pervasive limits of our own knowledge as individuals and political actors, our necessary reliance on social institutions to comprehend reality on a fundamental level, and, as a result, the marvel of the complex extended order that liberal institutions facilitate but no single person can fully comprehend. I now brief-

ly suggest how this perspective answers some concerns with Hayek's account.

Individual contributions to aggregate outcomes

A valuable point that proponents of social justice make is that just because a state of affairs has arisen by unguided processes does not mean it is normatively justified. That would be to commit something akin to the naturalistic fallacy—a trap into which classical liberal theories can occasionally fall. Nevertheless, there is a kind anti-naturalistic fallacy that shadows much normative theory. It presumes that any feature of society that lacks clear rational justification is likely to be normatively unjust (Lister 2013, p. 414). This assumption is explicit in conflict theories of society which precede on the basis that social struggles underlie even comparatively peaceful social orders, and that all social outcomes are the result of a set of dominant interests winning a competition for power. However, the assumption is also present in any political theory that presumes all social outcomes must ultimately be subject to rational justification. The notion that government action may not align with benevolent intentions is easily imagined by any social critic. The more radically skeptical notion that government, ultimately a set of individuals acting within institutional rules, has limited capacity to act and does so in the midst of pervasive ignorance is much harder to grasp and yet fundamental to Hayek's liberal political economy (Furton and Martin 2018).

What appreciative theory offers is a kind of symmetry between the intended and unintended consequences of individual action. From the social justice theorists' standpoints, we are responsible for our personal conduct to a considerable degree. However, we also share in the responsibilities for the injustices or disadvantages produced by those social institutions, in which we participate. From the appreciative standpoint, if we bear some responsibility for collectively produced poor outcomes, then we must also share in the collective beneficence of outcomes produced through the various spontaneous processes of cooperation in which we participate.

It is not chiefly our personal participation in formal political processes that is responsible for the good that we bring to others but our actions as producers for the market, family members and contributors to civil society. For example, it is not a government or distinct group that is responsible for the annual production of goods and services of a community, and their normally expected annual increase in de-

veloped economies, but everyone who has made any kind of productive contribution inside or outside of markets themselves (Boettke 2018, p. 268; McCloskey 2007). Within a framework of a liberal order, even where people's avowed intentions do not reach the summit of social justice, nevertheless traditional moral conduct, including commitment to hard-work, respect, civility and deferred gratification produce broad benefits for people throughout society.

Rule of law

Within the framework of applied ethics, technical legal principles like the formal rule of law and secure property rights do not seem to have a direct connection with the fundamental interests or rights of individuals. They appear to play an instrumental or political role rather than a moral one. The insistence on the rule of law above other substantive moral goals can appear, at best, to be a necessary feasibility constraint to prevent poor governance, but often more likely to represent an unhealthy obsession with formality or process over consequences.

The rule of law, especially when used in defense of individual property rights, might appear to be based on a moral principle that one should avoid an individual's reasonable expectations being disappointed because presumably that interferes with individual autonomy (the underlying *moral* value at stake) (Gamble 2013, p. 346; Plant 2010, p. 79). Of course, it is not only governments that disappoint individual expectations. Expectations are disappointed by natural accidents, as well as through ordinary competitive market behavior and decisions taken by individuals in civil society. A Hayekian emphasis on the rule of law to restrict state action alone seems, on the one hand, excessively stern and, on the other hand remarkably partial since it fails to address other forms of uncertainty and disappointment that humans encounter.

However, within an appreciative framework, the rule of law is not purely formal but is justified on a substantive intention to carve out spheres of activity where people are free from the arbitrary will of others. This can be illustrated with a parallel that has been discussed on several occasions in this debate (Schmidtz 2010). Systems of traffic rules and management include various general, formal rules that apply in all circumstances and to all participants. Others vary depending on the kind of vehicle one is driving or if one is a pedestrian. In addition to rules, traffic systems involve building physical infrastructure that make it safer for travelers and make it as clear as possible how the rules will ap-

ply in each case through both road design and standardized signs. The system does involve some substantive changes to the environment to make it easier to follow the rules, though limited to the road network. Such systems are established with the common, public (but relatively thin) goal of allowing people to travel safely throughout a community.

Similarly, Hayek's commitments to the rule of law involves both formal generality and substantive content, with the common goal of generating circumstances in which people are capable of both experimenting and planning to discover how to make a positive contribution to social cooperation. When denied this structure of liberty, individuals are rendered dependent on the arbitrary will of those with political authority to have their basic needs fulfilled (cf. Trantidis and Cowen 2019). From this standpoint, the rule of law, especially as applied to economic life, has primarily social rather than individual value because it allows individuals to avoid imposing burdens on others, while also making a productive contribution to their betterment. Thinking back to our traffic management illustration, generally applicable rules are vastly superior for preventing traffic accidents than arbitrary commands because only general rules empower individual travelers to act appropriately based on their situated knowledge.

Rawls and Hayek

Hayek acknowledges that justice is an important criterion for legitimizing formal political institutions. As a result, his criticisms of social justice, in general, avowedly do not apply to the Rawlsian framework because it distinguishes between a basic structure where justice applies and the rest of civil society:

there unquestionably also exists a genuine problem of justice in connection with the deliberate design of political institutions, the problem to which Professor John Rawls has recently devoted an important book. The fact which I regret and regard as confusing is merely that in this connection he employs the term "social justice" (Hayek 1976, p. 100).

Hayek quotes Rawls' explanation of justice applying not to "specific systems or distributions of desired things" (Ibid.) but as applying to constraints on a basic structure. Nevertheless, Hayek and Rawls disagree on the contours of that basic structure. From Hayek's appreciative standpoint, this is because it is impossible for institutions to coordinate

to determine in detail the outcomes of economic exchange and political activity. The best institutions governing a whole political community can do is facilitate generally beneficial patterns of cooperation. Hence, evaluating relative distributive shares between groups, which Rawls makes a key part of the content of justice, is too epistemically ambitious.

Both Rawlsian and Hayekian approaches also make use of comparative analysis (Cowen 2017). In Rawls' (1999) case, his procedural approach to identifying principles of justice involves representative agents reasoning back and forth between various alternative conceptions to see which are most plausibly compatible with our intuitions and particular concrete problems (Kukathas and Pettit 1990, p. 8). The principles of justice are not deduced from logical axioms but argued to be the ones that would be selected from a menu of plausible options.

So there is overlap between Rawlsian and Hayekian approaches. Yet Rawls ultimately decides that the comparison of institutional arrangements points decisively against capitalism and in favor of either socialism or a property-owning democracy (an idealized regime type not yet seen in reality). What really makes the difference is the approach to economic inquiry. *Pace* Knight's early influence (Lister 2017), Rawls endorses a static formal approach to economic modelling that characterizes the neoclassical approaches of Meade (2012) and Samuelson (1947). This account explains the success of market economies in terms of a general equilibrium under conditions of perfect competition. However, as its proponents often assert, this perfect competition model is rendered irrelevant when faced with externalities, public goods and other collective action problems. The model purporting to explain the efficiency properties of markets ends up serving to highlight the scant cases in which we would expect markets to work in practice.

Hayek begins instead with the appreciative observation that many needs are met through individuals, guided by market prices, making incremental improvements to their productive activities. This observation cannot be adequately explained by a model of perfect competition which, of course, no one believes obtains realistically given human actors with limited knowledge. It is this realistic epistemic challenge that indicates the comparative performance of private-property markets against state-owned or state-directed alternatives. Hence, Rawls' reliance on formal models that lack salient features to explain realistic observations of economic activity explains his practical divergence from Hayek.

Meade (2012) also makes strong predictions about the automatic accumulation and growth of capital, a claim that Piketty (2014) has subsequently re-asserted. This is what justifies Rawls' insistence either on state-control of significant means of production or constant measures to disperse such control to citizens who cannot be expected to acquire it themselves under market conditions. However, these predictions are based on strong assumptions about the growth of capital. These follow the neoclassical framework but do not explain economic history particularly well (Acemoglu and Robinson 2015). From a Hayekian standpoint, what we call capital is a loose category of goods that entrepreneurs believe to be valuable as part of intermediate stages of production (cf. Kirzner 2012; Delmotte and Cowen 2019). We would not expect such variegated phenomena to exhibit a structural tendency to accumulate independently of human action and institutional context (Cowen 2018). When observing changes in wealth holdings, we are looking for some other less abstract explanation than capital accumulation, something that is compatible with the compositive results of individual action (Boettke et al. 2005).

PRINCIPLES FOR PROGRESS

At this point, a conservative theorist might stop, concluding that whatever class or income group we find ourselves in, we are enormously fortunate to live in a developed commercial society compared to any alternative regime, past or present; and that the concerns of contemporary social justice advocacy are trivial. That would be appreciation as apologetics. Indeed, Hayek offers some resources for a conservative theorist making that sort of argument. But Hayek's social philosophy does not need to stop there and should not, because there are many persistent patterns of injustice that manifest, even under liberal regimes (Novak 2018). We can recognize them as requiring urgent reform. But those reforms will only be successful if they follow an appropriate analysis of their causes.

What can a Hayekian perspective offer the committed social justice reformer? Rather than an explicit manifesto, we can derive some broad heuristics that policymakers or activists could adopt when trying to achieve their stated moral objectives, some of which I suggest here.

Preservation

One heuristic is placing substantial weight on *preservation* of the market economy. Given appreciation of the resource-

fulness of liberal commercial societies, we can be confident that losing market institutions or undermining them would be harmful to the interests of the disadvantaged. Many of Hayek's political views translate into injunctions against kinds of action in public policy, rather than positive proposals. He does not know, and indeed no one can really know with certainty, what positive solutions to poor social outcomes will work in each case. But Hayek can say with greater confidence what interventions will impede or undermine the workings of the market economy. The Hayekian theorist puts impediment to markets on the cost side of the ledger when considering new policy and takes care that markets will still be permitted to function despite the intervention. This is not to suggest that Hayek is against any and all deliberate policy interventions. But because of the uncertainty associated with the outcomes of any intervention, reformers should aim to introduce those that are responsive to negative feedback and can be reformed or rolled back should they fail.

This is one reason why contemporary theorists drawing on the Hayekian tradition prefer federal institutions and devolution of power over national policy. The problem from the perspective of a static conception of social justice is that any variation in policy inducing different distributive outcomes within a national community appears to be a source of arbitrary inequality (it allows some people living within some sub-national political units to do better than others) (Bennett 2016). From a dynamic perspective, these inequalities are acceptable if they result from legitimate rule-bound institutions that respect personal liberties (allowing freedom of exit from one district to another) and contribute to social knowledge that allows better policy to emerge and spread. Indeed, it is theorized (in conjunction with historical evidence) that federal institutions are those most likely to encourage the preservation of market institutions themselves (Hayek 1939; North et al. 2009; Weingast 1995).

The resourcefulness of market institutions is currently widely acknowledged across the political spectrum. Few theorists or activists propose upending them. However, an exception is sometimes found when it comes to environmental problems and especially the problem of climate justice in the wake of anthropogenic climate change. A common argument is that capitalism is intrinsically incompatible with maintaining an environment suitable for continued human life on Earth (Geuss 2008, pp. xii-xiii). Here the comparative institutional analysis underpinning appreciative theory comes to the fore. While climate change (a paradigmatic global externality) presents a great difficulty

for market institutions, neither history nor contemporary evidence suggest that non-market economies are capable of overcoming them (Shahar 2015, 2017). Given the other benefits of markets as they stand for human wellbeing, disposing of them now based on a purely theoretical connection between market activity (as opposed to productive human activity in general) and climate change is unwarranted.

Diagnosis

A second heuristic is *diagnostic*. Given appreciation of the remarkable resilience of market processes to deal with episodic and incentive barriers to beneficial co-operation, policymakers should look on a poor social outcome with a strong theoretical prior that something is preventing people from finding voluntary means to improve it. For example, it might be that a minority or disadvantaged group lack formal or effective access to standard legal protections and remedies, a failure of equality before the law. It could be that law enforcement is discriminatory or predatory towards the group constituting a failure of the rule of law. It might turn out that responsibility for a bad outcome lies in a regulatory intervention that (intentionally or not) ends up imposing prohibitive costs on those who might supply a solution.

A contemporary illustration can be found in the problem that rental and purchase costs for homes in areas of high employment have risen above what workers can reasonably afford. A common way of looking at this problem is that it is an example of market failure caused by the quasi-monopolistic nature of land ownership and a speculative financial system. But if the underlying reason for expensive housing is that the ordinary workings of the market have been stymied in that sector then regulatory interventions could introduce more costs without solving the underlying problem, and in some cases exacerbating it (Diamond et al. 2019). There is empirical evidence that land-use planning regulation or restrictive zoning, often popular with existing homeowners, is the most important explanation for the rise in housing costs (Cheshire and Sheppard 1989; Glaeser and Gyourko 2018; Rognlie 2016). An appreciative perspective suggests giving that explanation a stronger weight than alternatives because it coheres with a broader understanding of the typical epistemic properties of the market process.

Public choice and democracy

A third heuristic is alertness to the dynamics of interventionism, or unintended consequences emerging within political processes (Boettke and Leeson 2002). The key premise is that just as spontaneous orders emerge within market settings, so too does competition in the political sphere produce outcomes that are the result of human action but not of any single intention (Hebert 2018; Wagner 2016). What makes the beneficial outcomes produced through market processes ordinarily resilient is that market institutions are both incentive compatible and have compelling epistemic properties. People participate in them because they receive positive feedback in terms of income and profit when they produce marketable value. The reason why markets generally display these responsive features is that they are based on exchange and contract within a framework of secure property rights. Voluntary consent against a background of established rights has a strong tendency to lead to incremental improvements in modes of cooperation.

In contrast, the political process, by design, allows controlling majorities, or organized minorities, to determine a direction of policy (Congleton 2003; Tullock 1959). This allows political processes to overcome some collective actions problems when it comes to the provision of public goods and addressing externalities. Nevertheless, it means there are always opportunities to force people to accept conditions that are worse than their *status quo* as part of the decision-making process. This can spontaneously produce socially unjust outcomes just as surely as the unintended consequences of some market activities. Moreover, continuous use of such processes can normalize the use of coercion as a means for powerful groups to achieve their ends (Boettke and Thompson 2019; Meadowcroft 2014).

The implication of the dynamics of politics is that state institutions are not a neutral toolkit that can be directed to any given ends, including a model of social justice. Instead, there are internal logics to state action that can spontaneously direct policymakers to coerce, or otherwise damaging, solutions to social problems even when that is not any individual's intent. There are some well-established mechanisms within democracies that help constrain the authoritarian tendencies of state action (Boettke et al. 2016), including competitive elections, federal institutions and constitutional constraints that ensure due process and that laws are applicable to all. The pursuit of social justice must be compatible with this liberal institutional framework lest

the political process cease to be responsive to the needs of those participating in it.

CONCLUSION

Boettke (2018) shows that economists adopting a neoclassical perspective can easily misunderstand a key theme of Hayek's work: an informal appreciation of market institutions as capable of ameliorating pervasive ignorance and error in people's attempts to cooperate at the scale of a political community. I have argued that this lack of an appreciative lens also limits the engagement of some social justice theorists with Hayek's insight. Once established, an appreciative theory can furnish a useful set of heuristics for engaging in productive reform of social injustice within a society.

REFERENCES

- Acemoglu, D. and Robinson J. 2015. The Rise and Decline of General Laws of Capitalism. *Journal of Economic Perspectives*. 29 (1): 3–28.
- Albrecht, B. C. 2017. The Breakdown of Spontaneous Order: Smith and Hayek Diverge. *New York University Journal of Law and Liberty*. 11 (1): 346–370.
- Albrecht, B. C. and Kogelman, B. 2018. Coase, the Austrians, and Models as Foils. <https://briancalbrecht.github.io/models-as-foils.pdf>. Accessed 5 September 2019.
- Bennett, M. 2016. Experiments in Distributive Justice and Their Limits. *Critical Review*. 28 (3-4): 461-483.
- Boettke, P. J. 1997. Where did economics go wrong? Modern economics as flight from reality. *Critical Review*. 11 (1): 11-64.
- _____. 2002. Information and knowledge: Austrian economics in search of its uniqueness. *The Review of Austrian Economics*. 15 (4): 263–274.
- _____. 2018. *F. A. Hayek: Economics, Political Economy and Social Philosophy*. London: Palgrave Macmillan.
- Boettke, P. J. and Candela, R. A. 2017. The Intellectual Context of FA Hayek's The Road to Serfdom. *The Journal of Private Enterprise*. 32 (1): 29-44.
- Boettke, P. J. and Coyne, C. J. 2009. Context Matters: Institutions and Entrepreneurship. *Foundations and Trends in Entrepreneurship*. 5 (3): 135-209.
- Boettke, P. J. and Leeson, P. T. 2002. Hayek, Arrow, and the Problems of Democratic Decision-Making. *Journal of Public Finance and Public Choice*. 20 (1): 10-20.
- Boettke, P. J. and O'Donnell, K. W. 2013. The Failed Appropriation of F. A. Hayek by Formalist Economics. *Critical Review*. 25 (3-4): 305–341.
- Boettke, P. J. and Storr, V. H. 2002. Post-classical political economy: Polity, society and economy in Weber, Mises and Hayek. *American Journal of Economics and Sociology*. 61 (1): 161–191.
- Boettke, P. J. and Thompson, H. A. 2019. Identity and off-diagonals: how permanent winning coalitions destroy democratic governance. *Public Choice*. doi: 10.1007/s1127-019-00683-7.
- Boettke, P. J., Coyne, C. J. and Leeson, P. T. 2005. The continuing relevance of F.A. Hayek's political economy. *Advances in Austrian Economics*. 11: 79-98.
- _____. 2013. Comparative historical political economy. *Journal of Institutional Economics*. 9 (3): 285–301.
- Boettke, P. J., Tarko, V. and Aligica, P. 2016. Why Hayek Matters: The Epistemic Dimension of Comparative Institutional Analysis. *Advances in Austrian Economics*. 21: 163-185.
- Caldwell, B. 2004. Some Reflections on F.A. Hayek's The Sensory Order. *Journal of Bioeconomics*. 6(3): 239-254.
- Carens, J. H. 1981. *Equality, Moral Incentives, and the Market: An Essay in Utopian Politico-Economic Theory*. Chicago: University of Chicago Press.
- Cheshire, P. and Sheppard, S. 1989. British Planning Policy and Access to Housing: Some Empirical Estimates. *Urban Studies*. 26 (5): 469-485.
- Cohen, G. A. 2003. Facts and Principles. *Philosophy & Public Affairs*. 31 (3): 211-245.
- Congleton, R. D. 2003. Generality and the Efficiency of Government Decision Making. In: Rowley, C. K. and Schneider, F. (eds.) *The Encyclopedia of Public Choice*. Boston: Springer, pp. 585-588.
- Cowen, N. 2017. Why be robust? The contribution of market process theory to the Robust Political Economy research program. In: Boettke, P. J., Coyne, C. J., and Storr, V. H. (eds.) *Interdisciplinary Studies of the Market Order: New Applications of Market Process Theory*. London: Rowman and Littlefield, pp. 63–85.
- _____. 2018. Mill's radical end of laissez-faire: A review essay of the political economy of progress: John Stuart Mill and modern radicalism. *The Review of Austrian Economics*. 31 (3): 373-386. (forthcoming).
- _____. (forthcoming). Hayek: Postatomic Liberal. In: Callahan, G. and McIntyre, K. (eds.) *Critics of Enlightenment Rationalism*. London: Palgrave Macmillan.
- D'Amico, D. 2015. Spontaneous Order. In: Coyne, C. J. and Boettke, P. J. (eds.) *The Oxford Handbook of Austrian Economics*. Oxford: Oxford University Press, pp. 115-142.
- Delmotte, C. and Cowen, N. 2019. The mirage of mark-to-market: distributive justice and alternatives to capital taxation. *Critical Review of International Social and Political Philosophy*. doi: 10.1080/13698230.2019.1644585.
- Diamond, R., McQuade, T. and Qian, F. 2019. The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco. *American Economic Review*. 109 (9): 3365–3394.
- Furton, G. and Martin, A. G. 2018. What Can Economists Do? Appreciative Theory, Market Design, and Open Systems. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3276897. Accessed 5 September 2019.
- Gamble, A. 2013. Hayek and Liberty. *Critical Review*. 25 (3-4): 342-363.
- Geuss, R. 2008. *Philosophy and Real Politics*. Princeton: Princeton University Press.
- Glaeser, E. and Gyourko, J. 2018. The Economic Implications of Housing Supply. *Journal of Economic Perspectives*. 32 (1): 3-30.
- Griffiths, S. 2014. *Engaging Enemies: Hayek and the Left*. London: Rowman & Littlefield.

- Hayek, F. A. 1939. The economic conditions of interstate federalism. *New Commonwealth Quarterly*. 5 (2): 131-149.
- _____. 1937. Economics and Knowledge. *Economica*. 4 (13): 33-54.
- _____. 1945. The Use of Knowledge in Society. *American Economic Review*. 35 (4): 519-530.
- _____. 1952. *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology*. Chicago: University of Chicago Press.
- _____. 1964. Kinds of Order in Society. *New Individualist Review*. 3 (2): 3-12.
- _____. 1976. *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy*. Vol. 2, *The Mirage of Social Justice*. Chicago: University of Chicago Press.
- Hebert, D. J. 2018. The Spontaneous Order of Politics. *Advances in Austrian Economics*. 23: 131-144.
- Höpl, H. M. 1978. From Savage to Scotsman: Conjectural History in the Scottish Enlightenment. *Journal of British Studies*. 17 (2): 19-40.
- Johnston, D. 1997. Hayek's attack on social justice. *Critical Review*. 11 (1): 81-100.
- Kiesling, L. 2015. The Knowledge Problem. In: Coyne, C. J. and Boettke, P. J. (eds.) *The Oxford Handbook of Austrian Economics*. Oxford: Oxford University Press, pp. 45-64.
- Kirzner, I. M. 2012 *Essays on Capital and Interest: An Austrian Perspective*. In: Boettke, P. J. and Sautet, F. E. (eds). *The collected works of Israel M. Kirzner*, Vol. 3. Indianapolis: Liberty Fund.
- Knight, C. 2017. Reflective Equilibrium. In: Blau, A (ed.) *Methods in Analytical Political Theory*. Cambridge: Cambridge University Press, pp. 46-64.
- Knight, F. H. 1921. *Risk, Uncertainty, and Profit*. New York: Houghton Mifflin Company.
- Kukathas, C. and Pettit, P. 1990. *Rawls: A Theory of Justice and Its Critics*. Cambridge: Polity.
- Lavoie, D. 1986. The market as a procedure for discovery and conveyance of inarticulate knowledge. *Comparative Economic Studies*. 28 (1): 1-19.
- Leeson, P. T. and Boettke, P. J. 2009. Two-tiered entrepreneurship and economic development. *International Review of Law and Economics*. 29 (3): 252-259.
- Lister, A. 2013. The "Mirage" of Social Justice: Hayek Against (and For) Rawls. *Critical Review*. 25 (3-4): 409-444.
- _____. 2017. Markets, desert, and reciprocity. *Politics, Philosophy & Economics*. 16 (1): 47-69.
- Lukes, S. 1997. Social justice: The Hayekian challenge. *Critical Review*. 11 (1): 65-80.
- McCloskey, D. N. 2007. *The Bourgeois Virtues: Ethics for an Age of Commerce*. Chicago: University of Chicago Press.
- McDermott, D. 2008. Analytical Political Philosophy. In: Leopold, D and Stears, M (eds.) *Political Theory: Methods and Approaches*. New York: Oxford University Press, pp. 11-28.
- Meade, J. E. 2012. *Efficiency, Equality and the Ownership of Property*. New York: Routledge.
- Meadowcroft, J. 2014. Exchange, unanimity and consent: a defence of the public choice account of power. *Public Choice*. 158 (1-2): 85-100.
- Menger, C. 1985. *Investigations into the Method of the Social Sciences, with Special Reference to Economics*. New York: New York University Press.
- Miller, D. 1990. *Market, State, and Community: Theoretical Foundations of Market Socialism*. Oxford: Clarendon.
- Nelson, R. R. and Winter, S. G. 2004. *An Evolutionary Theory of Economic Change*. Cambridge: The Belknap Press of Harvard Univ. Press.
- North, D. C., Wallis, J. J. and Weingast, B. R. 2009. *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. New York: Cambridge University Press.
- Novak, M. 2018. *Inequality: An Entangled Political Economy Perspective*. Cham, Switzerland: Palgrave Macmillan.
- Nozick, R. 2013. *Anarchy, State, and Utopia*. New York: Basic Books.
- Ostrom, V. 1993. Epistemic choice and public choice. *Public Choice*. 77 (1): 163-176.
- Piketty, T. 2014. *Capital in the Twenty-First Century*. Cambridge: The Belknap Press of Harvard University Press.
- Plant, R. 2010. *The Neo-Liberal State*. Oxford: Oxford University Press.
- Rawls, J. 1971. *A Theory of Justice*. Oxford: Oxford University Press.
- _____. 1999. *A Theory of Justice*. Revised edition. Cambridge: Belknap Press of Harvard University Press.
- Rognlie, M. 2016. Deciphering the Fall and Rise in the Net Capital Share: Accumulation or Scarcity? *Brookings Papers on Economic Activity* (Spring): 1-69.
- Samuelson, P. A. 1947. *Economic Foundations of Economic Analysis*. Cambridge: Harvard University Press.
- Schmidtz, D. 2010. Property and justice. *Social Philosophy and Policy*. 27 (1): 79-100.
- Schmidtz, D. and Brennan, J. 2012. Classical Liberalism. In: Estlund, D (ed.) *The Oxford Handbook of Political Philosophy*. New York: Oxford University Press, pp. 115-132.
- Shahar, D. C. 2015. Rejecting Eco-Authoritarianism, Again. *Environmental Values*. 24 (3): 345-366.
- _____. 2017. Hayek's Legacy for Environmental Political Economy. In: Boettke, P. J., Coyne, C. J. and Storr, V. H. (eds.) *Interdisciplinary Studies of the Market Order: New Applications of Market Process Theory*. Lanham: Rowman & Littlefield, pp. 87-109.
- Swift, A. 2010. *Political Philosophy: A Beginners' Guide for Students and Politicians*. Second edition. Cambridge: Polity.
- Swift, A. and White, S. 2008. Political Theory, social science, and real politics. In: Leopold, D. and Stears, M. (eds.) *Political Theory: Methods and Approaches*. New York: Oxford University Press, pp. 49-69.
- Tebble, A. J. 2009. Hayek and social justice: a critique. *Critical Review of International Social and Political Philosophy*. 12 (4): 581-604.
- Tomasi, J. 2012a. *Free Market Fairness*. Princeton: Princeton University Press.
- _____. 2012b. Social justice, free market style. *Public Policy Research*. 19 (1): 26-33.
- Trantidis, A. and Cowen, N. 2019. Hayek versus Trump: The Radical Right's Road to Serfdom. *Polity* (forthcoming).
- Tullock, G. 1959. Problems of majority voting. *Journal of Political Economy*. 67 (6): 571-579.
- Wagner, R. E. 2016. *Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy*. Cheltenham: Edward Elgar.
- Weingast, B. R. 1995. The economic role of political institutions: Market-preserving federalism and economic development. *Journal of Law, Economics, & Organization*. 11 (1): 1-31.
- Williams, J. 1997. On the road again: Hayek and the rule of law. *Critical Review*. 11 (1): 101-120.

Before Kahneman and Tversky, There Was Friedrich Hayek

ROGER FRANTZ

San Diego State University

Email: rfrantz@sdsu.edu

Web: <https://economics.sdsu.edu/faculty/frantz.html>

“And how do we keep our balance? That I can tell you in one word! Tradition! Because of our traditions, we’ve kept our balance for many, many years ... we have traditions for everything ... You may ask, how did this tradition get started? I’ll tell you. I don’t know. But it’s a tradition. And because of our traditions, every one of us knows who he is and what God expects him to do”

—Tevye, the lead character in *Fiddler on the Roof*, talking to a group of community members about traditions)

“In our economic activities we do not know the needs which we satisfy nor the sources of the things which we get. Almost all of us serve people whom we do not know, and even of whose existence we are ignorant; and we in turn constantly live on the services of other people of whom we know nothing. All this is possible because we stand in a great framework of institutions and traditions—economic, legal, and moral into which we fit ourselves by obeying certain rules of conduct that we never made, and which we have never understood” (Hayek 1988, p. 14)

INTRODUCTION: WHAT THE PARETIAN TURN TAKES, IT DOESN’T EASILY GIVE UP

Some say that neoclassical theory took a wrong turn in the twentieth century. Some call it the “Paretian turn,” referring to Pareto’s reformulation of choice theory, one which eliminated psychology and unempirical elements, including the concepts of hedonist utility and ophelimity. A reformulation which replaced cardinal utility with ordinal utility. Luigino Bruni (2013) says that “[t]he xxth century has been in its greater part—from the 1930’s to the 1990’s—Pareto’s

century” (Bruni 2013, p. 47).¹ Boettke says that Hayek accentuated institutions because during the period 1930-1950 economic theory was becoming characterized by its “excessive formalism and excessive aggregation” (Boettke 2018, p. 285). Both excessive formalism and excessive aggregation characterize an “empty style of thought, even when this is presented in a technically competent manner” (Ibid.). These two statements are important for my paper because the excessive formalism and aggregation, and the empty style of thought even if it way competent, were two of the characteristics of neoclassical economics that behavioral economics rejected. Long before Kahneman, Tversky, and Thaler, before first generation behavioral economists, Simon, Leibenstein, and Katona, and others, Hayek was writing about the shortcomings in neoclassical theory, some of which became known as behavioral economics. To be clear, the writings of the first generation behavioral economists and those who came later—Kahneman, Tversky, Thaler, and those who followed them—do not look the same. The topics are mostly not the same. But underneath these “superficial” characteristics, they are very similar. Both critique neoclassical economics and do so in part by critiquing economic man.

Boettke also indicates that “the institutional framework, social life may either follow Adam Smith’s comment that humans have a tendency to “truck, barter, exchange,” or Thomas Hobbes’s statement that humans have a tendency for “rape, pillage, plunder” (Boettke 2018, p. 159). The difference in behavior is due to the fact that it is the institutional framework which determines benefits and costs of specific behaviors. If the benefits of cooperation are less than the costs then life will be as Hobbes suggested: “nasty, brutish, and short” (Ibid.). Boettke continues, saying that the economics’ focus on the institutional framework, or institutionalism, for short, was lost to economics during the period 1900-1950 because of economics’ increased formalism. Classical (political) economists were economists, historians, philosophers, and scholars in legal theory. They cared about their arguments being logically sound, rather

than simply logically valid, which was the concern of standard non-institutional neoclassical economics. Classical political economy was also concerned that their theories have a modicum of realism which guided their empirical analysis. They did not shy away from verbal reasoning.

Non-institutional neoclassical economics cared not about realism but only about their theories' ability to predict. Mathematical precision substituted for verbal reasoning. Simplifying assumptions replaced abstract reasoning and realism. As Richard Thaler quipped, ECONS replaced HUMANS in economic theories and models. And, he added, studying ECONS for fifty years, economists might as well have been studying unicorns.

Boettke says that “[t]hus, modern neoclassical economics was born, and classical political economy was discarded” (Boettke 2018, p. 161). And, “[t]hus, early twentieth-century thinkers who resisted formalism continuously stressed the lack of realism of assumptions as a problem” (Ibid.). It was to no avail. But, what goes around, comes around. Just as political economy was discarded it now seems that neoclassical theory is being discarded in favor of behavioral economics. In fact, Erik Angner’s (2019) recent article is titled, “We Are All Behavioral Economists Now.” While some say that neoclassical economics will absorb behavioral economics, thus ending its academic life, Angner believes that behavioral economics will absorb neoclassical economics, thus ending its academic life. Just as neoclassical theory discarded psychology, sociology, and institutions from economics, behavioral economics with its inclusion of psychology, sociology, and institutions is replacing neoclassical theory. The earlier writers of what became behavioral economics, those who began writing before Kahneman and Tversky, and Thaler, included Harvey Leibenstein (Ph.D. in Economics), Herbert Simon (Ph.D. in Political Science), and George Katona (Ph.D. in Psychology). In several instances Hayek wrote about topics and came to similar conclusions before Leibenstein, Simon, or Katona.

The Four Stages of Hayek’s Work

Boettke discusses four phases of Hayek’s work, but says that distinct boundaries among the four phases is not possible. The first phase, c. 1920-1945, Boettke calls Economics as a Coordination Problem. The second phase, c. 1940-1960, he calls The Abuse of Reason Project. During this phase Hayek spoke about “rational constructivism of the administrative state” (Boettke 2018, p. xvi), and the “constructivist rationalism of legislation” (Ibid., p. 175). The first two phas-

es led to Hayek’s institutional economics. The third phase, c. 1960-1980, and fourth phase, 1981-1992, will not be discussed here.

The second phase, 1940-1960, is of particular interest because that covers Hayek’s writing on rationality and the first beginning of behavioral economics. Behavioral economics had two beginnings. The famous beginning, the second beginning, the truly revolutionary beginning, was 1974 and 1979. 1974, was when Tversky and Kahneman published their article in *Science*, and 1979, was when Kahneman and Tversky (1979) published their article in *Econometrica*. The first beginning started in the 1940s with several publications by George Katona and Herbert Simon, followed in 1950 (and then 1966) by Harvey Leibenstein. There were other first generation behavioral economists who were writing in the 1940s and 1950s. There can be two beginnings in behavioral economics because the first one, the one beginning in the 1940s, has been discounted by those ginning in the second beginning.

The first generation behavioral economists did many things, but perhaps the most important was their attack on economic-man, *Homo economicus*, the 24/7, 100 per cent rational (fictional) person. Behavioral economics was not possible if economic-man was the model for human decision-making because economic-man lacked free will: he could only maximize. Even if he tried not to maximize, neoclassical economic theory would explain why not maximizing is simply a misunderstanding. A misunderstanding on the part of the person who doesn’t understand the constraints and environment in which economic-man operates. If those things were understood then the objector would realize that s/he is maximizing. It gets exhausting very quickly.

Hayek’s second phase and constructivist rationality is important here. Constructivist rationality expressed through rational choice theory, maintains that practical rationality is independent of circumstances. Regardless of institutional surroundings, rationality means equating at the margin. By contrast ecological rationality maintains that rationality depends on the circumstances in which the decision taken place. What is rational under one set of circumstances is not rational under a different set.

The dependence of rationality on circumstances was illustrated by Herbert Simon who used an analogy with a pair of scissors. One blade is the cognitive limits of the individual, and the other is the “structures of the environment.” The psychological and the rational or economic are part of the same process. This is one reason why Herbert Simon was a (first generation) behavioral economist. Hayek’s discussion

of rationality and his rejection of *Homo economicus*, before Simon put pen to paper about the same, is one reason to consider Hayek a (first generation) behavioral economist.

Hayek preferred the concept of ecological rationality to that of constructivist rationality. Constructivist rationality means, in part, designing society by our will. It is the abuse of reason, trying to use reason to consciously design civilization. Constructivist rationality is associated most with Rene Descartes. Boettke says that “[m]uch of Hayek’s work should be seen as an attempt to defend reason against its abuse under the guise of scientism or Cartesian rationalism” (Boettke 2018, p. 186). Boettke then includes a quote from Hayek’s 1973 book, *Law, Legislation, and Liberty* (Vol. 1: Rules and Order):

Complete rationality of action in the Cartesian sense demands complete knowledge of all relevant facts. A designer or engineer needs all the data and full power to control or manipulate them if he is to organize the material objects to produce the intended result. But the success of action in society depends on more particular facts than anyone can possibly know (Hayek, cited in Boettke 2018, Ibid.).

First generation behavioral economists, or writers of “old” behavioral economics, rejected Cartesian rationality because they rejected the idea of complete knowledge and global rationality. Simon preferred the terms bounded rationality and procedural rationality. Leibenstein preferred the terms selective rationality and procedural rationality. Bounded and selective rationality are not identical with each other, but they are both critical of global rationality, or any of the synonyms for it, i.e., substantive rationality, objective rationality, perfect rationality, maximization, or optimization.

Section 2 will discuss some features of institutions and knowledge common to Hayek, and Harvey Leibenstein. Section 3 will show some aspects of Hayek’s behavioral economics. Section 4 is a summary and conclusions.

HAYEK, AND HARVEY LEIBENSTEIN

Let me be very clear. Leibenstein’s overall vision was not as comprehensive as Hayek’s.² I am not going to try to equate the two men. What I want to show is that both men wrote about similar topics. In most cases Hayek wrote about them before Leibenstein. I have looked for Leibenstein referencing Hayek but it has been to no avail. Leibenstein is a first

generation behavioral economist. Hayek, by virtue of his writing about the same topics and having a similar philosophy as Leibenstein, is also considered a first generation behavioral economist. In fact, Hayek wrote before other first generation behavioral economists. Thus, before there was Kahneman and Tversky, there was Hayek.

On page 170 of his book, Boettke says that “Hayek moved the conversation from the technical arguments concerning the price system and the allocation of scarce resources to the institutional environment that would need complement that planning task” (Boettke 2018, p. 170). Likewise it can be said of Leibenstein that he attempted to move the conversation from the technical arguments surrounding allocative efficiency to the environment inside the firm – the firm is an institution – and to non-allocative, X, efficiency. Boettke says that Hayek was “trapped” between historicism and formalism (Ibid., p. 172). The former has room for the effects of local culture, but rejected the “one and only one interpretation of data or events.” Leibenstein’s X-efficiency theory included an important role for local culture of the firm and industry competition. But, Leibenstein rejected the “one and only one interpretation of human action,” i.e., all human action is everywhere and always fully rational. X-efficiency theory violated almost every norm of formalistic economic theory, including the use of mathematical reasoning, the search for equilibrium solutions, and the assumption of complete rationality. At the same time, Leibenstein was a trained neoclassical economist, and considered himself to be a neoclassical economist.³ He simply did not believe that neoclassical economics offered a complete explanation of all human and economic phenomena. Boettke quotes Hayek from *Individualism and the Economic Order*, “Nothing is solved when we assume everybody to know everything and that the real problem is rather how it can be brought about that as much of the available knowledge as possible is used” (Ibid., p.178). For Leibenstein, as for the vast majority of the human race, no one can know everything. However, if there is an increase in competitive pressure, then individuals will use more of the available knowledge than they did before.

The Net and the Classroom

In *General X-Efficiency and Economic Development*, Leibenstein (1978) uses the metaphor of a net to compare a model of perfect competition, and a “realistic” model of the economy. In the perfect competition model the net has neither tears nor rips in it. Thus, commodities flow unimpeded to

firms and households, and all firms are treated equally with all other firms. There is no need for entrepreneurs. In the realistic model the net has tears and rips in it. The net is “impeded, incomplete and ‘dark,’ in contrast to unimpeded and ‘well lit’ net that represents the competitive model” (Leibenstein 1978, p. 45; italics added).

In, “The Meaning of Competition,” Hayek uses a metaphor of a *well-lit* and a *darkened* classroom, to discuss the ability of markets to serve as a tool for learning. Boettke explains that:

Markets, in Hayek’s rendering... become learning mechanisms, and how effective they are at teaching is a function of the institutional environment within which they operate. To introduce perhaps a useful metaphor, think of a well-lit classroom with a white board, and black marker—a student... will be able to easily read the information on that white board and add to their knowledge base. On the other hand, imagine that same student finds themselves in a dark classroom with no lights, with a white board and white marker. The information may in fact be written up on the white board, but the student cannot read it, and thus they cannot add to their knowledge base” (Boettke 2018, p. 236).

Leibenstein metaphor of a net as the economy contains two important parts: nodes and pathways. The nodes are where two or more strands or pathways come together. The nodes represent firms and/or industries which receive inputs, and households which receive consumer goods. The pathways are the carriers of the inputs and goods and services to firms, industries and households. In a neoclassical model with cost minimizing firms, all of the strands are in perfect condition without any tears or rips which would hinder the workings of the markets. The nodes are also in good working order, dealing equally with all other nodes. In the “real world” the strands contain tears and sometimes it is torn and hence there are gaps in the nets. Inputs and goods do not flow to the persons and/or firms willing to pay the highest price. Some inputs, such as knowledge, cannot be traded. Hence the need for entrepreneurs. In Leibenstein’s model entrepreneurs are “gap fillers” and “input completers” (Leibenstein, 1978). If some inputs are not marketed, Leibenstein mentions knowledge as one such input, and if markets contains imperfections, i.e., torn or ripped strands of the net, then the entrepreneur must fill-in the gaps and complete the inputs in the net.

Leibenstein says that when you assume that production and cost functions are complete, and markets and prices function well, then there is little if any use for entrepreneurs. In the real world the former are not complete and the latter do not function as they do in textbooks. The net has tears and rips in it, and the entrepreneur is a gap-filler and “input completer.

BEHAVIORAL ECONOMICS

Before Kahneman and Tversky, and Thaler, Hayek, in Chapter 9 of his 1952 book, *The Counter-Revolution of Science: Studies on the Abuse of Reason*, wrote about the limits of human rationality (or reason): “It may indeed prove to be far the most difficult and not the least important task for human reason rationally to comprehend its own limitations” (Hayek, cited in Frantz and Leeson 2012, pp. 4-5).

I know, Hayek is an Austrian economist and they are not related to behavioral economics. But, in tracing the history of the ideas which led to the “behavioral revolution,” Hayek has a central role. Consider some of these ideas: bounded rationality, the role of the unconscious in decision-making, tacit knowledge, human interactions, time and complexity, natural and social sciences, and the role of explanation and prediction. Here I will discuss three ideas: prediction and explanation, knowledge, and, last but not least, rationality.

Explanation and Prediction

The Hayekian research program extends the spontaneous order approach beyond the realm of economic explanation to all realms of social interaction, including science, law, and history (Boettke 2018, p. 185).

Hayek did not believe that predictions about specific events, “point predictions,” were possible. This is due to “complexity” which means that the amount of necessary information needed to make point predictions is beyond our abilities. He did believe that “pattern predictions” were possible. Pattern predictions are predictions about generalities of a situation as a whole, but not about specific elements of a situation. Similarly, Hayek distinguished between explanations from which we can make predictions, and explanations which explain the principles responsible for the creation of phenomenon. Because of the nature of our materials, “explanations of the principle are often the best that we can do in the social sciences” (Caldwell 2004, p. 247). In other words, we are not perfectly rational.

People with expertise such as chess grandmasters express their expertise through (largely unconscious) pattern recognition. According to Herbert Simon grandmasters don't have the time to choose the best possible move which includes their opponents reaction to their reaction to their opponents reaction, etc, so they use their expertise, largely stored in the unconscious, to make a reasonable move.

In *An Empirically Based Microeconomics*, Simon comments on Friedman's use of "as if" in order to rid economics of psychology and limit economics to a theory's ability to predict. As opposed to Friedman's perfect billiard player (Friedman and Savage, 1948; Friedman, 1953), Simon says that "[i]f we want a theory explaining how people play billiards, we do not want a theory of perfect billiard balls; we want a theory of what heuristics a human billiard player uses in order to plan and make a (often not quite accurate) shot. These heuristics do not involve solving the differential equations of the billiard board; they involve rules of thumb, and it is these practical guides to action we are trying to discover in order to explain the behavior" (Simon 1965, p. 173). Do people maximize? Simon says that "[n]o one has, in fact, observed whether the actual positions of business firms are the profit-maximizing ones; nor has anyone proposed a method of testing this proposition by direct observation" (Simon, cited in Augier 1982, p. 143). The problem with "as if" assumptions is that they ignore the limits of our knowledge and cognitive abilities.

By comparison and contrast, Leibenstein's X-efficiency theory contains atomistic and molecular elements. The atomistic elements are individual consumers and members of an organization. The molecular elements are households and firms. Micro theory is about the molecular elements. X-efficiency is about the atomic elements *and* the molecular; Leibenstein calls it micro-micro theory (Leibenstein 1976).

Leibenstein held to the belief that prediction is not the only or the most important criterion for evaluating a theory. He refers to the idea that prediction is the only criteria as the "romantic" view, a "matter of faith or of taste" (Ibid., p. 13). Leibenstein believed that an important maybe is the ability to "obtain coherent explanations of phenomena and events." He goes on to say that "predictive capacity without explanatory capacity is worthless. ... Only predictive capacity that arises out of having coherent and communicable explanations has scientific standing. The power to predict is subsidiary to the power to explain. Explanation without prediction is sufficient, but prediction without explanation is of no consequences from a scientific standpoint" (Ibid.).

Why does Leibenstein reject the "romantic view," the prediction is all that counts view? Leibenstein's rejection is similar to Hayek's rejection of the same. Economics deals with complexity, with a large number of observations and variables and relationships among the variables. Economic events are complex because they are affected by economic and non-economic variables, and these numerous non-economic variables "can not be accounted for on the basis of existing knowledge" (Leibenstein 1976, pp. 14–15). There are simply too many possible interactions of (known and unknown) factors influencing economic behavior and the economic system for "prediction engine" to be the "be all and end all" of economic theory.

THE KNOWLEDGE PROBLEM

In his endorsement of Boettke's book, Nobel Laureate Vernon Smith says of Hayek's theory of dispersed knowledge:

Among mid-twentieth century economists, only Hayek's work enabled us to understand what I found truly astonishing. People in my market experiments quickly discovered the efficient equilibrium outcomes hidden in their dispersed knowledge of individual item values that I had assigned them privately.⁴

The knowledge problem, the difficulties caused by "dispersed" knowledge is that knowledge is possessed by individuals, each of whom knows only a miniscule amount of available knowledge. Those who work "on the ground" have the knowledge of time and place. Policy makers have theoretical knowledge. Both people "on the ground," and policy makers have a knowledge problem. However, Hayek believes that the policy maker/central planning socialist has added problems. In addition to a knowledge problem they also suffer from an "abuse of power" problem (Boettke 2018, p. 120). They abuse power and replace private markets with political decision making. However, private markets work by allowing the price system to correctly allocate dispersed knowledge.

Boettke spends a fairly large amount of space discussing Hayek's theory of knowledge. Drawing from Hayek's "The Use of Knowledge in Society," published in 1945, Boettke says that:

the knowledge that is relevant to the solution to the economic problem is never given to a single mind, but is widely dispersed throughout society as bits of

incomplete, subjective knowledge, much of it tacit in nature and only pertaining to the particular time and place (Boettke 2018, p. 85).

For Hayek, the most important aspect of knowledge is “unorganized,” or tacit: the knowledge of “particular circumstances of time and place.” It is the “contextual nature of knowledge” (Boettke 2018, p. xiv). This knowledge is widely distributed among the population and can’t be known or communicated by a central planning board. How do we make use of tacit knowledge? Boettke says that the answer given by the Austrian School is that it is a “function of property, prices, and profit-and-loss to structure incentives, mobilize information, discover and utilize the knowledge that is dispersed throughout the economy, and provide the spur for innovation and the feedback on bad decision-making that is necessary for economic actors to coordinate their plans” (Ibid., p. xv).

The Austrian School goes further than simply using tacit knowledge. Boettke quotes Hayek who said that “the task of economic theory was to explain how an overall order of economic activity was achieved which utilized a large amount of knowledge which was not concentrated in any one mind but existed only as the separate knowledge of thousands or millions of different individuals” (Hayek, cited in Boettke 2018, p. 5).

One implication of tacit knowledge is that the institutions of Western society, including the market system, are “the result of human action but not the result of human design.” The economy and society are too complex to be the product of human design. The information requirements for creating a rational social order is not possible for a single mind or for a relatively few minds. The knowledge required to create a rational social order can be the product only of decentralized human interaction through trial-and-error, utilizing tacit or unorganized knowledge.

Sunstein

Chapter 5 of Sunstein’s (2018) *The Cost-Benefit Revolution* is titled “The Knowledge Problem.” In it Sunstein says that there are two “indispensable” ideas surrounding regulation. One is the need to measure the effects of regulation on social welfare. The other, “attributed above all to Friedrich Hayek” (Sunstein 2018, p. 79), is that “knowledge is widely dispersed in society” (Ibid.). The latter has important implications. Sunstein explains that:

government planners cannot possibly know what individuals know, simply because they lack that dispersed knowledge. The multiply failures of plans and the omnipresence of unintended consequences can be attributed, in large part, to the absence of relevant information... How can they possibly obtain the knowledge that would allow them TO compare costs and benefits? Often they cannot (Ibid., p. 79).

Boettke says something similar, that “[a]ctors on the ground do not possess the theoretical knowledge of the policymaker, but the policymaker does not have access to the “on the ground” knowledge of the particular circumstances of time and place that economic actors are in possession of” (Boettke 2018, p. 204).

The problem is more than simply dispersed knowledge. In, *The Ethics of Influence*, Sunstein has a section titled, “Ignorant and Biased Officials.” He says that choice architects—regulators, planners, politicians, bureaucrats, public officials—are “emphatically human and fully subject to behavioral biases; they may be unreliable for that reason” (Sunstein 2016, p. 75). They suffer from, among other things, the present bias, overconfidence, the availability heuristic, and loss aversion. Thus, “In a democratic society, public officials are responsive to public opinion, and if the public is mistaken, officials might be mistaken as well” (Sunstein 2016, p. 76). Sunstein says that a “remarkable passage” from Hayek is that “the awareness of our irremediable ignorance... is the chief basis of the argument for liberty” (Ibid. p. 56). But there is one other consideration. Citing (behavioral) public choice theory, Sunstein says that public officials may simply be self-interested rather than primarily interested in the social good. They may have sufficient knowledge to make great decisions for the public good, but they don’t.

Sunstein finds a passage from Hayek’s “The Use of Knowledge in Society” to be another “remarkable” passage. It is where Hayek says that the type of knowledge he is most interested in cannot be part of a table of statistics, and hence cannot be useful to central planners. This is the knowledge of “time and place” (Hayek 1948, p. 83). One suggestion Sunstein makes which could help with the knowledge problem is the process by which the public can comment on the proposed rule(s), i.e., on the consequences and/or the costs and benefits of the proposed rule(s). Sunstein comments that “[i]t is important to acknowledge that even in its most ambitious forms, the public comment process might fail to solve the knowledge problem” (Sunstein 2018, p. 89). For one thing, most citizens who could contrib-

ute their knowledge would, for various reasons, not participate in the process. Still in 2011, President Obama signed Executive Order 13563, which required that after passage of new rules, an analysis of the rule(s) with respect to how they are actually working is undertaken. One important focus of the E.O. is the existence of “dispersed information of the public” (Ibid., p. 93).

Simon

In Simon’s article, “A Behavioral Model of Rational Choice,” he says that:

[t]raditional economic theory postulates an ‘economic man,’ who, in the course of being economic is also ‘rational.’ This man is assumed to have knowledge of the relevant aspects of his environment... and a skill in computation that enables him to calculate ... the alternative courses of action that are available to him (Simon 1955, p.99).

Simon did not accept the notion that a high degree of rationality is possible for a human being. In his *Administrative Behavior*, originally published in 1947, he says that it is “inconceivable” that a person can act with perfect rationality. In order to do so requires that the person has a:

complete description of the consequences following from each alternative strategy and would have to compare those consequences. He would have to know ... how the world would be changed by his behaving in one way instead of another... through unlimited stretches of time, unlimited reaches of space, and unlimited sets of values (Simon [1947] 1976, p. 78).

Simon did not argue against economic-man using the Austrian a-priori method. He offered an *observation*:

Although the heads of the two agencies appeared to agree as to the objectives of the recreation program, and did not appear to be competing for empire, there was continual disagreement and tension between them with respect to the allocation of funds Why did they not do, as my economics books suggest, simply balance off the marginal return of the one activity against that of the other? (Simon 1979, p. 500).

In *Sciences of the Artificial*, originally published in 1969, Simon includes two long quotes from Hayek’s 1945 article, “The Use of Knowledge in Society,” one about the real economic problem and the other about the price system. About the price system, Simon says that “[a]s ... Hayek points out, its most striking characteristic is the way it reduces and localizes informational and computational requirements” (Simon 1982, p. 42).

Leibenstein

In his seminal article in 1966, “Allocative Efficiency vs. ‘X-Efficiency,” Leibenstein says that:

a good deal of our knowledge is vague. A man may have nothing more than a sense of its existence, and yet this may be the critical element. Given a sufficient inducement, he can search out its nature in detail and get it to a stage where he can use it. People normally operate within the bounds of a great deal of intellectual slack. Unlike underutilized capital, this is an element that is very difficult to observe” (Leibenstein 1966, p. 405).

Hayek uses the word incomplete, Leibenstein uses the word vague. Knowledge is vague, knowledge is incomplete. Maybe vague and incomplete are not (good) synonyms, but they are good enough: I am a satisficer.

RATIONALITY

My contention is that so long as we assume the existence of *Homo economicus* then behavioral economics could not exist. This is because *Homo economicus* is not a HUMAN being. *Homo economicus* doesn’t have free will. S/he must behave according to preordained rules of behavior. Psychologist James B. Watson, founder of the psychological school of behaviorism, even suggested that if you observe a rat in a maze, then you could learn a lot about human psychology (Pomoroy 2014).

Homo economicus does not make mistakes and does not succumb to cognitive errors. Hence, their behavior is virtually completely predictable. On the other hand, Richard Thaler quipped that studying HUMANS is akin to studying unicorns. HUMANS were needed in economic theories and models and behavioral economics has been doing just that.

One of the purposes of psychology is to change or improve behavior. Why would anyone need to change or improve the behavior of ECONS? They wouldn't. You want to change or improve the behavior of a being who doesn't make mistakes in judgement? Getting an ECON, or homo economicus "on the couch" would be hilariously boring. One of the purposes of economics is to understand human behavior in an economic setting. Once you state the constraints humans face, their behavior is predictable. On the other hand, the problem is, as Hayek and Leibenstein believed, the constraints we face are subjective, known mostly by ourselves. Hence economists know about as much of the constraints humans face as we know about – unicorns.

In Chapter 1 of Boettke book he lists misconceptions about Hayek. The first misconception is that Hayek's methodological individualism was based upon atomistic actors who were perfectly rational. The second misconception is that Hayek saw the price system as perfectly efficient. Hayek's rejection of perfect rationality and perfect efficiency is central to behavioral economists, especially the first generation behavioral economists.

In his book, *The Counter-Revolution*, Hayek ([1952] 1979) gives a history of "rational constructivism" and "scientism" in the social sciences. Hayek follows in the footsteps of the Scottish Enlightenment philosophers and economists who believed that modern civilization is threatened by the "abuse of reason" mandated by the rational constructivists who want to design civilization. Hayek sees this attempt as placing mankind in the "chains of his own making" (Boettke 2018, p. xiv).

Boettke uses the terms "rational constructivism of the administrative state" (Ibid.), and the "constructivist rationalism of legislation" in order to emphasize the influence of the state on the definition and use of the term rationality. (Ibid., p. 175). Constructivist rationality expressed through rational choice theory, maintains that practical rationality is independent of circumstances. Regardless of institutional surroundings, rationality means equating at the margin, period. By contrast ecological rationality maintains that rationality depends on the circumstances in which the decision taken place. What is rational under one set of circumstances is not rational under a different set. Herbert Simon used an analogy with a pair of scissors. One blade is the cognitive limits of the individual, and the other is the "structures of the environment" (Simon 1990, p. 7). The psychological and the rational are part of the same process. This is one reason why Herbert Simon was a (first generation) behavioral economist. Hayek's discussion of rational-

ity and his rejection of *Homo economicus* is one reason to consider Hayek a (first generation) behavioral economist.

Hayek believed that humans are far from being perfectly rational, i.e., "deliberative and foresighted." However, deliberative and foresighted is one type of rationality. Another form is the rationality which characterizes the social process and social institutions as a whole. This form is not the same as the conscious and logical mental activities of the Descartes rationalist school of thought. Be that as it may, Hayek (2014) sees humans as being "lazy, ... improvident, ... and short-sighted." We are rule-following as much as we are rational. Humans succeed not by being rational but by being guided by "evolved rules and practices."

Acquiring and communicating rules is affected by observation and imitation, both which Hayek refers to as non-rational. The non-rational may be unavoidable because "reason, like science and like civilization itself, advances only by grappling with the unknown and the unpredictable. Consequently, "the only environment wherein reason can grow and operate effectively ... [is the] indispensable [realm] of the uncontrolled and non-rational" (Ibid.).

Using reason properly means recognizing the limits of reason, recognizing that "reason is not omnipotent—that it is a tool, not an author; a servant, not a judge" (Ibid.). And it means facing the "implications of the astonishing fact . . . that order generated without design can far outstrip plans men consciously contrive." (Ibid.). Reason deals with the "abstract" and not with the ability to make concrete proposals about specific actions for complex societies. Hayek also maintains that behavior guided by habit, custom, and tradition is rational in the sense that such behavior is not contrary to intelligent action. It seems to be a puzzle or a paradox that Hayek sought to show the limits of reason by using rational analysis.

HAYEK AND THE FIRST GENERATION BEHAVIORAL ECONOMISTS

I use this term to include economists and others writing about rationality before 1974 (and in most cases after 1974). This group includes, in addition to Katona, Simon, and Leibenstein, Ken Boulding, James March, Richard Cyert, Tibor Scitovsky, G. L. S. Shackle, Richard Nelson, Sidney Winter, James Duesenberry, Reinhard Selten, and French sociologist Gabriel Tarde. Here I will briefly discuss the thoughts on rationality by some of the first generation behavioral economists mentioned above.⁵

Gabriel Tarde (1843-1904) was a French sociologist and Judge who coined the term “economic psychology” in his two volume book *La Psychologie Economique* (1902). He wrote about herding or imitation in decision making. He rejected the concept of economic man. He rejected the idea that humans possess “unrestricted” rationality, and that rational behavior excludes emotions, devotion, or passions. He rejected the idea that we have a single unified self, preferring the idea of a dual self, the materialistic-egoistic and the spiritual. He believed that the economic-man was a “mutilation” of a real human. And he considered economic-man as neither necessary nor sufficient to explain economic behavior.

In *The Ambiguities of Experience*, James March (2010), talks about stories and myths of organizational experience. Of the four main mythic themes, one is the myth of rationality. The myth of rationality is that the humans make decisions based on future consequences. It is an omnipresent myth in stories of management, and the core of the answer to the question “why did you do that?” (March 2010, p. 57). In his 1978 article, “Bounded Rationality, Ambiguity, and the Engineering of Choice,” March says that rational choice involves two guesses, one about future consequences and another about future preferences.

Kenneth Boulding saw the future of economics, and it was behavioral economics. In “Contemporary Economic Research” he said that “[t]here will be movement toward behavioral economics... which involves study of those aspects of men’s images, or cognitive and affective structures that are more relevant to economic decisions” (Boulding [1958] 1961, p. 21). Boulding says that before Einstein, astronomers did not pay attention to the behavior of gravity because gravity’s behavior was so perfect that, in effect, it did not have any behavior. Likewise, economists have not really been interested in human behavior because it is assumed to be perfectly rational (Ibid., p. 82).

Nelson and Winter state matter-of-factly that models of maximization do not reflect economic reality. Firms often use decision rules which are not maximizing (Nelson and Winter 1973, p. 441). Do the rules ever lead to maximizing behavior? They say, Yes. Humans are selectively rational. Why bounded or selectively rational? Because the environment is too complex relative to our level of knowledge and other constraints. These other constraints are scarcity of time, limited communications channels, and limited assistance for “organizing, analyzing, and thinking about the available information” (Ibid., p. 67). Nelson and Winter re-

fer to it as a “severe information-processing constraints” (Ibid., p. 66).

In Chapter 3 of Duesenberry’s 1949 classic work, *Income, Saving and the Theory of Consumer Behavior* he says that savings is the outcome of our dual-selves: “The level of saving actually achieved by anyone represents the outcome of the conflict between his desire to improve his current standard of living and his desire to obtain future welfare by saving” (Duesenberry 1949, p. 22). Duesenberry uses data from the Office of Public Opinion Research which shows that people’s desired income is a function of income aspirations, not maximum income. People are satisficers, to use Simon’s term. Finally, Duesenberry argues that consumption behavior as being the outcome of habits, genetics, and learning, but not rational planning (Ibid., p. 24).

In *Epistemics and Economics*, Shackle ([1972] 2009) discusses the “paradox of rationality” (p. 246). On the one hand, rational decision making is limited to things which we have complete knowledge. On the other hand, perfect knowledge requires the impossible, that is, knowing both the past and the future in their entirety. Thus the paradox - to make a rational choice we must transcend the grasp of choice.

Unknowledge

Shackle says that a shortage of knowledge is a permanent part of the world we live in. Unknowledge also includes the existence of “unknown unknowns.” Economics assumes that people are rational but doesn’t ask what we can’t know. Shackle says that economics, instead of asking these questions asks only the questions which are “allowed” to be asked. A result is that economists have separated economics from other aspects of life by a “wall of rationality” (Ibid., p. 4). Hence important knowledge is neglected. Hayek asserted that “soft” knowledge is neglected in favor of “technical” knowledge.

Tibor Scitovsky said that “rational behavior as pictured by the economist and actual behavior as observed and explained in terms of the psychologist’s motivating forces are not at all the same thing” (Scitovsky, [1976] 1992, p. 65). Are people ever rational in the economist’s sense? Scitovsky says that we are selectively rational, meaning we are rational sometimes, at other times not. “Economists usually picture the consumer as rationally weighing the merits of the available alternatives before making a choice. . . Sometimes that is what happens, but sometimes it is not” (Ibid., p. 72).

Simon

Simon's theory, which I have already discussed, is that of bounded rationality, rationality limited by the cognitive limits of a person and the complexity of the environment.

Leibenstein

The History of Economic Thought website⁶ says that Leibenstein was most famous for X-efficiency theory, and fertility theory. Leibenstein tried but did not succeed in replacing allocative or Pareto efficiency with X-efficiency. Yet, he is "hailed as a pioneer of behavioral economics." Why is Leibenstein hailed as a pioneer of behavioral economics? Maybe the most important reason is he theorized that *Homo economicus* did not express the behavior of humans all of the time. Theorizing that *Homo economicus* was more Fredo Corleone than Michael Corleone. Of the approximately 20 (in)efficiency empirical studies consistent with X-efficiency theory, Harvey authored none of these studies. Most of the 200 studies measured X-, non-allocative, (in) efficiency as the distance an organization is from the (cost or production) frontier. The average deviation of these 200 studies is approximately 20 percent.

Leibenstein rejected the view that a "reasonable" human is necessarily logical. A reasonable man lives in a dynamic world characterized by states of disequilibrium. Habits, conventions, subjective and incomplete perceptions of the external world, and his internal world of felt pressures are reasons why humans usually cannot and do not maximize. For whatever reasons humans don't maximize. Leibenstein was not interested in "fitting" the reasons we don't maximize into a maximizing model to make it appear that they are maximizing. However, increase pressure on individuals up to a point, and humans move towards maximization.

Human rationality varies from perfect rationality to something less. The degree of rationality exists along a continuum. The degree of rationality depends on the decision-making processes used. It is about procedural rationality and not substantive rationality.

Before Leibenstein wrote about selective rationality, before Simon wrote about bounded rationality, Hayek wrote about the limits of human rationality. Before Leibenstein wrote about X-efficiency, about 20 years before, Hayek wrote about something so similar almost to be identical. Hayek did this when he wrote about tacit or unorganized knowledge. Unorganized knowledge includes knowing how "to put to use a machine not fully employed, or somebody's

skill which could be better utilized ... the shipper ... using empty or half-filled journeys of tramp-steamers" (Hayek 1945, p. 522). The converse is also relevant. Hayek notes the consequences of "an inefficient manager to dissipate the differentials on which profitability rests, and that it is possible, with the same technical facilities, to produce with a great variety of costs" (Ibid., p. 523). Leibenstein could not have stated it any better; X-inefficiency raises costs above the technological minimum. Before Kahneman and Tversky, there was Hayek.

SUMMARY AND CONCLUSIONS

There are many good books about Hayek. Some are *Hayek's Challenge*, by Bruce Caldwell; *Hayek's Journey* by Alan Ebenstein; *Friedrich Hayek. A Biography*, by Alan Ebenstein; *Hayek in Mind: Hayek's Philosophical Psychology*, by Leslie Marsh, and *Keynes-Hayek. The Clash That Defined Modern Economics*, by Nicholas Wapshott. To this list we add Peter Boettke's, *F. A. Hayek. Economics, Political Economy and Social Philosophy*. Boettke discusses among many other things, Hayek's theory of money and prices, institutional economics, the market system, market socialism and the failures of socialism, epistemics and institutional change. It is a powerful book about one of the great thinkers of the past one-hundred years, and probably longer than that. One of the most important parts of the book for my purposes is Boettke's discussion of constructivist and ecological rationality, and Hayek's criticism of constructivist rationality. This is important because, first, behavioral economics rejects the idea that people are 100 per cent (constructivist or substantive) rational. Second it is important because the rejection of the assumption of 100 per cent rationality is a necessary condition for the development of behavioral economics. Third, Hayek spoke about rejecting the assumption of 100 per cent human rationality before most behavioral economics, making him, in my opinion, a first generation behavioral economist. There are several concepts which are central to behavioral economics, and in this paper I focused on three of them – prediction vs understanding in theories and models, knowledge, and rationality. The discussed the overlaps between Hayek's ideas and those of first generation behavioral economists. I noted that Hayek wrote about his ideas before the others wrote about their ideas which overlapped those of Hayek. I am not saying that, for the most part, they acknowledged Hayek in their own development. Therefore, I cannot show that there was an evolution of economic thought from Hayek to the others. What I am saying

is that there was an overlap. And, hence, Hayek, the Austrian economist, was a first generation behavioral economist.

NOTES

- 1 The “origin” of the 2013 Bruni paper is a paper by Bruni and Sugden (2007).
- 2 Leibenstein’s mentor at Princeton where he received his Ph.D. in 1951 was Oscar Morgenstern. It is thus not surprising that he incorporated several ideas from Austrian economics into his own works. These include the importance of the individual, methodological individualism; the importance of understanding and prediction in economic theories and models, and; subjective rationality vis-à-vis objective rationality.
- 3 A personal communication with Harvey Leibenstein.
- 4 At a behavioral economics conference in Reno, Nevada, Vernon Smith said, and I paraphrase, “Why would I be surprised at the results of the market experiments producing equilibrium prices and outputs? Because my mother was a socialist and I was a student at Harvard.”
- 5 The writings on these first generation behavioral economists can be found in Frantz (2019).
- 6 See <http://www.hetwebsite.net/het/profiles/leibenstein.htm>.

REFERENCES

- Angner, E. 2019. We’re All Behavioral Economists Now. *Journal of Economic Methodology*. 26 (3): 195-207.
- Augier, M. 1982. The Making of a Behavioral Economist: Herbert A. Simon and the Evolution of Bounded Rationality. In: Rizzello, S. (ed.) *Cognitive Developments in Economics*. New York: Routledge, pp. 133-157.
- Boettke, P. J. 2018. *F. A. Hayek. Economics, Political Economy and Social Philosophy*. London: Palgrave Macmillan.
- Boulding, K. E. [1958] 1961. Contemporary economic research. In: Ray, D. P. (ed.) *Trends in Social Science*. New York: Philosophical Library, pp. 9-26.
- Bruni, L. 2013. The Paretian Turn. The foundation of the Theory of Rational Choice, and Its Discontents. *European Journal of Social Sciences*. 51 (2): 47-64.
- Bruni, L. and Snugden, R. 2007. The Road Not Taken: How Psychology Was Removed From Economics, And How It Might Be Brought Back. *The Economic Journal*. 117 (516): 146-173.
- Caldwell, B. 2004. *Hayek’s Challenge: An Intellectual Biography of F. A. Hayek*. Chicago: University of Chicago Press.
- Duesenberry, J. 1949. *Income, Saving and the Theory of Consumer Behavior*. Cambridge: Harvard University Press.
- Frantz, R. 2019. *The Beginnings of Behavioral Economics*. San Diego: Elsevier.
- Frantz, R. and Leeson, R. (eds.) 2012. *Friedrich Hayek and Behavioral Economics*. New York: Palgrave Macmillan.
- Friedman, M. 1953. *Essays in Positive Economics*. Chicago: University of Chicago Press.
- Friedman, M. and Savage, L. 1948. Utility Analysis of Choices Involving Risk. *Journal of Political Economy*. 56 (4): 279-304.
- Hayek, F. A. 1945. The Use of Knowledge in Society. *American Economic Review*. 35 (4): 519-530.
- _____. 1948. The Meaning of Competition. In: Hayek, F. A. (ed.) *Individualism and Economic Order*. Chicago: University of Chicago Press, pp. 92-106.
- _____. [1952] (1979). *The Counter-Revolution of Science. Studies in the Abuse of Reason*. Indianapolis: Liberty Fund.
- _____. 1973. *Law, Legislation, and Liberty*, Vol. 1, *Rules and Order*. Chicago: University of Chicago Press.
- _____. 1988. *The Fatal Conceit: The Errors of Socialism*. In: Bartley, W. W. III (ed.) *The Collected Works of F. A. Hayek*, Vol. 1. Chicago: University of Chicago Press.
- _____. 2014. Hayek on the role of reason in human affairs. <https://isi.org/intercollegiate-review/hayek-on-the-role-of-reason-in-human-affairs/>. Accessed 27 July 2019.
- Kahneman, D., and Tversky, A. 1979. Prospect Theory: An Analysis of Decision under Risk. *Econometrica* 47 (2): 263-292.
- Leibenstein, H. 1950. Bandwagon, Snob, and Veblen Effects in the Theory of Consumer Demand. *The Quarterly Journal of Economics*. 64 (2): 183-207.
- _____. 1966. Allocative Efficiency vs. “X-Efficiency.” *American Economic Review*. 56 (3): 392-415.
- _____. 1976. *Beyond Economic Man*. Cambridge: Harvard University Press.
- _____. 1978. *General X-Efficiency Theory and Economic Development*. London: Oxford University Press.

- March, J. 1978. Bounded Rationality, Ambiguity, and the Engineering of Choice. *Bell Journal of Economics*. 9 (2): 587-608.
- _____. 2010. *The Ambiguities of Experience*. Ithaca: Cornell University Press.
- Nelson, R. and Winter, S. 1973. Toward an Evolutionary Theory of Economic Capabilities. *The American Review*. 63 (2): 440-449.
- _____. 1982. *An Evolutionary Theory of Economic Change*. Cambridge: Harvard University Press.
- Pomeroy, R. 2014. This May Be One of the Most Important Rat Studies. Here's Why You've Never Heard of It. https://www.realclearscience.com/blog/2014/02/the_rat_experiment_you_dont_know_about_but_should.html. Accessed 26 July 2019.
- Scitovsky, T. [1976] 1992. *The Joyless Economy. The Psychology of Human Satisfaction*. New York: Oxford University Press.
- Shackle, G. L. S. [1972] 2009. *Epistemics and Economics*. Cambridge: Cambridge University Press.
- Simon, H. 1955. A Behavioral Model of Rational Choice. *The Quarterly Journal of Economics*. 69 (1): 99-118.
- _____. [1947] 1976. *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization*. New York: The Free Press.
- _____. 1979. Rational Decision Making in Business Organizations. *American Economic Review*. 69 (4): 493-513.
- _____. 1982. *The Sciences of the Artificial*. Cambridge: MIT Press.
- _____. 1990. Invariants of Human Behavior. *Annual Review of Psychology*. 41: 1-20.
- _____. 1997. *An Empirically Based Microeconomics*. Cambridge: Cambridge University Press.
- Sunstein, C. 2016. *The Ethics of Influence. Government in the Age of Behavioral Science*. New York: Cambridge University Press.
- _____. 2018. *The Cost Benefit Revolution*. Cambridge: MIT Press.
- Tarde, G. 1902. *La Psychologie Economique*. Paris: Alcan.

A Branch on the Mainline: Hayek's Analysis of Complex Adaptive Systems

GERALD GAUS

University of Arizona
Email: jerrygaus@gmail.com
Web: www.gaus.biz

I cannot imagine any serious scholar who will not come away enlightened from Peter J. Boettke's *F. A. Hayek: Economics, Political Economy and Social Philosophy*. It is an impressive feat: Boettke weaves together biography, a close examination of the history of critical economic controversies with contemporary debates, fundamental reflections on the nature of economic thinking, the critical importance of information in the market order, a statement of the liberal program—and a guide to Hayek's system of ideas. A great strength of Boettke's book is his distinctive toolkit: he knows the history, the texts, and is a highly accomplished economist. He knows not only mainstream economics but what he describes as “mainline” political economy—the body of thinking about social and economic order extending from Adam Smith, through Hayek, Coase, North, Buchanan and Ostrom (Boettke, Haeffele-Balch and Storr 2016). It is rare that an author has this wide array of competencies and interests, making Boettke's contribution uniquely valuable.

Of course even a perspective such as Boettke's, including such a wide range of knowledge and tools, has its limits. By its very nature, a perspective categorizes and frames problems and solutions—that is how it enlightens us. That, though, also entails that it will fail to pick up on issues that do not fit well with its categorizations and background models. Although, as an economist, his perspective is extraordinarily broad and complex, Boettke nevertheless understands Hayek's system through the lens of economics. An alternative perspective, which I shall investigate here, stresses Hayek's indebtedness to the biological sciences, both directly in the form of his evolutionary thought, and methodologically. As Bruce Caldwell (2004, p. 299) tells us, in the early 1950s Hayek conducted a seminar at the University of Chicago—which he called “one the greatest experiences of my life”—on levels of organization in the sciences, in which Sewell Wright, a leading group selectionist, par-

ticipated. In the 1950s and 1960s Hayek developed his theories of complex systems and social evolution which, as I see it, deeply informed all his later work, most obviously *Rules and Order* (1973), the *Fatal Conceit* (1988) and, I believe his Nobel lecture of the “Pretense of Knowledge” ([1975] 2014). On this view, aspects of Hayek's thought that are rather peripheral to Boettke's analysis—such as the theories of cultural evolution and complex phenomena—move to center stage. The upshot of following out this second line of interpretation, I shall argue, is a somewhat different view than (though generally compatible with) the analysis of Hayekian economic methodology presented by Boettke. However, it suggests a more sharply contrasting understanding of Hayek's place in mainline political economy, a place that is obscured when we view his work primarily through the lens of economic thinking.

IT USUALLY BEGINS WITH ADAM SMITH

Boettke's idea of mainline economics begins, of course, with Adam Smith. Boettke (2018, p. 134, emphasis added) writes:

Even in the world of *knave* men, Smith demonstrated that economic liberalism enabled peaceful social cooperation that leads to increases in productivity. Indeed, he pointed out that *liberalism could not only deal with a world of selfish individuals, but actually harnessed man's self-interested motivation for the benefit of everyone*. Under liberalism, *self-interested and rapacious* man is “led by an invisible hand to promote an end that was no part of his intention”—to the interest of society.

I have two hesitations about this important passage: (1) the apparent claim that markets can successfully function

with a majority of truly selfish individuals, or even rapacious ones, and (2) the implication that the heart of Smithian liberalism is the invisible hand. I believe these two worries are reinforcing.

Reciprocity Rather Than Selfishness

As Boettke (Ibid., p. 227) acknowledges, self-interest is not the same as selfishness. Yet in the above passage he rather slides between them (“liberalism could not only deal with a world of selfish individuals, but actually harnessed man’s self-interested motivation for the benefit of everyone”). I infer that Boettke thinks that, while they are different, a largely selfish population could populate functional market orders. Thus he (Ibid., p. 172) repeats James Buchanan’s dictum: “same players, different rules, produce different games.” The difference between Hobbes and Smith, it would seem, is simply the institutional framework, not the underlying motivational structure. Put selfish, rapacious folks in the normless state of nature and they pillage; put them in the market and they trade (Ibid., p. 159).

On my reading of the evidence, I’m skeptical. Despite the best efforts of economists (say, drawing on direct reciprocity and the folk theorem in iterated games) to show that such individuals can cooperate, the results are not robust: as soon as opportunistic cheating is profitable, selfish or “rapacious” individuals will defect.¹ In contrast, evolutionary theorists explaining the rise of cooperation have focused on humans as “strong reciprocators.”² While we do not cooperate out of benevolence or altruism—our *aim* is not typically to help non-kin others—we willingly return benefit for benefit in lieu of the threat of punishment. We thus tend to stably play cooperative games, and so exchange flourishes.

Exchange Rather than the Invisible Hand

This brings me to my second concern. Although many insist that the invisible hand is the heart of Smith’s economics or his liberalism, we must remember that the phrase appears only once in *The Wealth of Nations*, and then only in Book IV, in the case against restrictions on imports in the second chapter of his relentless criticism of Mercantilism (Smith 1976, vol. 1, p. 477). What Smith himself clearly stresses in the first three chapters of *The Wealth of Nations* is that the tendency to *exchange* is at the core of markets and the resulting division of labor. Let us consider the famous passage more fully:

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another. ... [M]an has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this: Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages (Ibid., pp. 17-18).

Now as I read it, nothing in this canonical passage entails that individuals are selfish, or even allows selfishness, much less possible rapaciousness. Smith’s individuals are *reciprocators* playing cooperative games—“Give me that which I want, and you shall have this which you want.” This is not a promise selfish players can reliably make. Selfish individuals get caught in Prisoner’s Dilemmas, in which they each seek to defect on each other’s cooperation, and so their contractual promises³ are notoriously worthless: “Give me that which I want, and if I can’t get away with cheating, you shall have this which you want.” As Hobbes recognized, only by keeping the selfish in “awe” can they be sufficiently intimidated to play according to the rules. But reciprocators naturally and easily play the exchange game. There is, I think, no greater mistake in interpreting Smith than to think that the absence of benevolent motivation implies simple selfish motivation. There is a large space between being willing to be a sucker (benevolence) and preferring to play others for a sucker (selfishness). Smith denies that the market supposes the former but never says it embraces the latter.

Given Smith's assumption that individuals are reciprocators (natural exchangers), the stage is set for the division of labor (not the invisible hand) and its great expansion of markets. By far, most of us are reliable reciprocators, so exchange (rather than cheating and theft) is a natural way of meeting our needs. But, as Smith (1976, vol. 1, Bk. I, chap. 3) goes on to argue, the resulting division of labor becomes increasingly refined and specialized as the market expands. Smith seems to have viewed the expansion of the market and the division of labor as primarily driven by the *exogenous* variables of transportation and communication costs. As these costs go down, the number of people who gain by exchange increases, and so the division of labor becomes more minute (cf. Boettke 2018, p. 162). Jobs that could not exist in a small town become common in a large city. However, as the physicist complexity theorist Stuart Kauffman has recently argued, in both biological evolution and in the market this growth is, critically, *endogenous*. Each new service or good produces a new niche for yet other new services or goods, which themselves create more new niches that can be exploited. "The process is broadly self-accelerating. Thus, the growing economic web explodes in a diversity of complements and substitutes from perhaps a thousand or ten thousand goods 50,000 years ago to billions today!" (Kauffman 2018, p. 137).

Adam Smith's simple analysis of the exchange producing the division of labor is thus the core insight of a complexity analysis (Boettke 2018, p. 180ff.): individuals are constantly creating new niches, with new information about niche-contexts, as they go about trading (Kauffman 2018, p. 112). The market is thus constantly creating the conditions for its own expansion, constantly amplifying its own complexity (Ibid., p. 117). This insight is lost when we blur the analyses of exchange and the division of labor with Smith's account of the invisible hand. The invisible hand is a self-organization-equilibrating analysis: on the most common interpretation, it is about the system's tendency to produce a certain emergent property such as equilibrium. While this is important (though, we shall see in section III, not necessarily basic), it is different from the self-sustaining growth of the division of labor. How wealth and the market grow is the critical subject of Book I of *The Wealth of Nations*; we should not read into it the analysis of system self-organization (the invisible hand) from Book IV.

HAYEK'S COMPLEXITY ANALYSIS AND THE BIOLOGICAL TURN

In my view, Hayek's great contribution in the later part of his career was to develop the complexity insight implicit in Smith's mainline economics.⁴ Highly heterogeneous actors with distinctive plans constantly adjust their actions to the previous adjustments of others. And as they adjust they are constantly creating new economic niches, with attendant new possibilities for interactions and yet new reflexive adjustments (see Beinhocker 2013). What is especially noteworthy is that as Hayek develops this complexity insight he was increasingly drawn to understanding economics as an evolutionary discipline that shares a methodology with biology rather than physics. As Boettke nicely stresses, much of Hayek's work was a criticism of the methodology of mainstream economics, which sought to attain a physics-like analytic and predictive rigor. Recall Jevons's (1965, p. 3) claim at the outset of his *Theory of Political Economy*: "It is clear that Economics, if it is to be a science at all, must be a mathematical science." But, Hayek ([1964] 2014) argued, evolutionary sciences cannot generate deterministic mathematical models predicting outcomes: even if one assumed complete information, there is no possible set of equations that can predict the course of evolution. We can say that some developments are possible or impossible, but the course of an evolutionary phenomenon cannot be predicted.

Thus in his Nobel Prize lecture, Hayek ([1967] 2014, p. 365) insisted that "the social sciences, like much of biology but unlike most fields of the physical sciences, have to deal with structures of essential complexity, i.e., with structures whose characteristic properties can be exhibited only by models made up of relatively large numbers of variables." This is a fundamentally different objection to over-ambitious mathematical social science than that which Boettke (2018, pp. 182-185) rightly stresses, viz., the subjective and intentional nature of the data in the social sciences and so their essentially interpretive, narrative, character. This latter criticism of over-ambitious mathematical social science was, of course, important to Hayek's abuse of reason project (Hayek 2010). The line here is between the natural and moral sciences. In the Nobel Prize lecture, however, Hayek ([1975] 2014, p. 365) insists that he does not reject mathematical modelling, but stresses its limitations when confronted by complexity. Economics can model possible system states—"patterns"—but a deterministic set of equations

is quite impossible. This new line separates the complex from the non-complex sciences.

Kauffman (2018, p. x) has recently argued much the same: “what evolves cannot be said ahead of time.” And, very much in the spirit of Hayek, Kauffman insists that mathematics tells us little about where the evolutionary process may go. On Kauffman’s (Ibid., pp. 107, 110, 124) analysis evolutionary sciences—and here, like Hayek, he includes parts of biology and economics—concern “adjacent possible new niches.” We can only identify ahead of time *possible* adjacent new niches: evolution enables new developments but, Kauffman (Ibid., p. 116-7) stresses, evolutionary dynamics do not cause them to be occupied. Moreover, such developments are path dependent: the niches that are created and so are possible to occupy at time t_2 depend on those occupied at t_1 . Evolved systems are open, and so at any point exogenous factors may radically alter the possibility space. We cannot even know the possibility space (the boundary conditions of the system), so we cannot identify the probability that the system will occupy any specific space: “not only do we not know what will happen, we do not even know what can happen” (Ibid., 117).

TWO ACCOUNTS OF ADAPTIVENESS: SELF-ORGANIZATION AND MACRO-SELECTION

Why is the Self-Organizing Framework Itself Adaptive? Second-level Self-Organizat

Thus far I have been stressing a mainline track from Smith’s analysis of the division of labor to complexity and evolution—a line of development that Boettke (2018, pp. 179-181) also perceives, though it is not especially prominent in his book. Hayek’s reliance on complexity and evolution, and ultimately his “biological turn,” are all natural, but highly sophisticated, developments of the core Smithian focus on market exchange and the division of labor. Boettke (Ibid., p. 3) is certainly right: Hayek is a theorist of the twenty-first, not the twentieth, century.

We now come to what Boettke (2018, p. 174) calls “[t]he crucial step in the Hayekian analysis”—“to argue that not only was the pattern of social interaction within the *framework* a result of spontaneous order, but the very *framework* itself was the product of another spontaneous ordering process.” If we think in more evolutionary terms, the Hayekian claim ([1967] 2014; Mack 2006) is that not only does ac-

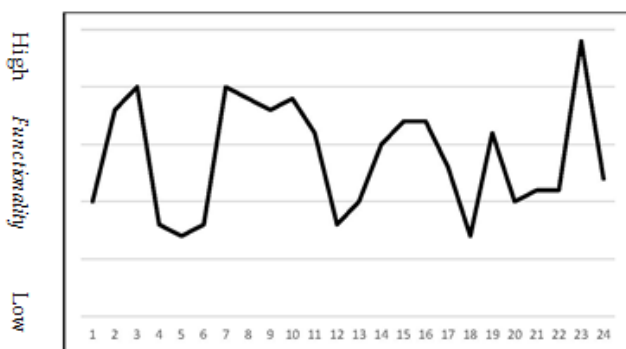
tion within a liberal institutional framework produce what he called an adaptive “order of actions” (i.e., a pattern of cooperation or conflict that emerges from the underlying moral and social rules and the way heterogeneous agents act under them), *but the underlying set of institutions producing this order is itself produced by a process of adaptation*. In a world of complex change, this is a critically important claim. Endogenously, the pace of the growth of innovation and complexity is accelerating; exogenously, the environmental conditions for the order of actions are constantly changing. We need to understand how this institutional structure maintains its adaptiveness in light of these dynamics. Schumpeter (1950, pp. 81-87) brought to our attention that evolved economies are subject to the “gales” of creative destruction: a wide number of niches may be wiped out when there is a major technological change (say, from horse drawn carriages to automobiles) Arthur (2015, p. 141). In an important essay, the biologist, D. S. Wilson (2016) reminds us that complex systems are not guaranteed to be adaptive: we must provide some account of how rules and institutions themselves alter to maintain system functionality (Arthur 2015, p. 141). Gales can result in extinction: why think that this evolved system can maintain itself?

The Main Mainline Answer: Self-Organization and the Foundational Invisible Hand

The mainline answer is to again invoke the invisible hand as a mode of self-organization. Call this the *Foundational Invisible Hand*. The familiar invisible hand is an individualistic, bottom-up, organizing device: focusing of the logic of rational choice, within suitable institutional rules a spontaneous order results (Boettke 2018, pp. 165-166). As Hayek proclaims, “Adam Smith’s decisive contribution was the account of a self-generating order which formed spontaneously if the individuals were restrained by the appropriate rules of law” (quoted in Ibid., p. 166). The question now is how these “appropriate” legal and institutional rules themselves arise. In exploring these problems in *Rules and Order* Hayek focused on the common law (which is essentially a bottom-up self-organizing process. Hayek suggests that there may be something akin to a market in law which determines what law is functional (Ibid., p. 175), just as the market determines what firms are adaptive. This would be a Foundational Invisible Hand, which provides an adaptive framework for the formation of the familiar invisible hand of the market. However, if, as we have been assuming, invisible hands require an institutional framework to function—

the self-organization of the normal market depends on an institutional structure—it is unclear how this Foundational Invisible Hand can function without its own appropriate institutional framework. If on the invisible hand account the market depends on the institutions of law, and supposing the market in law depends on a constitution, we need to consider what is the institutional framework that allows for an invisible hand in constitutional selection—that is, adaptive markets in constitutions. If there is no such framework, the endogenous self-reforming story either runs out, or admits the possibility of a non-institutional invisible hand.

The above suggests a regress problem: in our search to explain how the invisible hand framework organizes itself, we look for a more basic invisible hand, which presupposes a more basic framework; to explain that framework we need to find another invisible hand which implies yet another framework, and on and on. Regress problems are a mainstay of philosophy: they help clarify our models and claims. Yet they often are avoided in actual systems by complicated networks of interconnections, making it difficult to talk about distinct levels. Putting regress aside for now, there is a deeper worry about the type of incremental search procedure—solving one problem at a time—that Hayek thinks is involved in the common law. Just as the set of agent interactions in the market are complicated, a set of institutions is also apt to be densely interconnected. Indeed, this was one of Hayek’s core points: the institutions work as a “whole” producing an emergent order of actions. That is why the order of actions is an emergent property of the entire framework rather than a simple consequence of the aggregation of a set of rules (see §IV). This, though, means that the search for a better framework again confronts us with problems of complexity, as in Figure 1.



Institutional Frameworks Arrayed in Terms of Similarity
Fig. 1: Interconnected Institutional Frameworks

Figure 1 illustrates a set of institutional frameworks (1-24) arrayed in terms of institutional similarity on the x -axis⁵ and the functionality of the system (see Boettke 2018, p. 180) on the y -axis. This sort of “rugged landscape” is the inevitable result of a value (functionality) which is the output of a N -dimensional system with K interdependences (Kauffman 1993; Gaus 2016). In this case N = the set of institutional rules and K = the number of interdependencies between the rules, in the sense that the outcome of rules r_1 and r_2 is not simply the aggregation of their separate outputs. In her extensive fieldwork on actual institutions Elinor Ostrom (2014, p. 111) stressed that institutions are composed of numerous rule configurations in which the constituent rules have strong interdependencies, both with each other and with environmental conditions. “A change in any one of these variables produces a different action situation and may lead to very different outcomes.” When institutional frameworks have high N s and significant K s the framework is itself complex: the individual institutions are sufficiently interconnected that a change in any rule produces functionality-related changes in the outputs of many others, thus producing “rugged landscapes” as in Figure 1. That is what is meant by saying that the set of institutions functions as a “whole.” In this system there is not a high correlation between the adaptive value of one social framework and its institutionally similar neighbor.

The problem, then, is obvious: insofar as “evolutionary” is employed to mean “gradual” (Boettke 2018, p. 176), evolutionary, incremental, change (such as in the common law) does not look effective at reforming system functionality. To be sure, we see some gradients in Figure 1, i.e., areas in which an incremental evolutionary search mechanism can discover improvements by climbing a slope. There is a gradient, for example, from framework 12 and 15, but 15/16 is a local optimum: incremental searches cannot improve upon it, though there are a number of more functional institutional frameworks to be had. An incremental evolutionary search will end at 15/16.

The Subsidiary Mainline Proposal: Modest Top-Down Guidance

Although *Rules and Order* stressed the bottom-up self-organization of the legal framework through the common law, Hayek (1973, p. 88) allowed that explicit (top-down) legislation is sometimes required to solve an evolutionary “impasse,” which is a good description of an evolutionary path that ends up at system 16. Boettke (2018, pp. 288-289)

also defends “top-down” legislation as a way to improve a complex system. But explicit legislation faces perhaps even greater problems in a complex institutional setting. As Figure 1 shows, in order to get out of the “impasse” of system 16 the legislature must move to system 23. But this requires a simultaneous alteration of a number of institutions—and if the legislature gets it wrong by a little, society can end up in the even worse system 24. All the problems raised by Hayek’s critique of economic planning reappear here. The hard truth is that neither bottom-up nor top-down incrementalism are obviously effective in discovering functional changes in complex systems.

Of course this is simply the beginning of the debate: self-organization-invisible hand accounts have a variety of resources to respond. But all responses have significant difficulties (Gaus forthcoming). Most obviously, it might simply be insisted that things are not really very complex. That, though, not only seems empirically dubious, but it “solves” Hayek’s problem by undermining his major contribution. Or perhaps the familiar institutional structure of the market order is so highly functional that no matter what the state and complexity of the economy, we should leave it alone. No searching is necessary (we are already at system 23!). But then, *pace* Boettke (2018, p. 288), Hayek would indeed recommend passivity with respect to the institutional framework (any small change from system 23 will make things a lot worse). In any event, we still have not explained why the framework is adaptive: we seem just lucky to be at system 23.

Hayek’s Departure from the Mainline: Macro Selection

Wilson (2016, p. 44; see also Gowdy et al. 2016, p. 331) indeed, believes that, sans identifying a mechanism to ensure the functionality of the framework, the familiar market invisible hand would be little more than dumb luck. On his view (Wilson 2016, p. 44) the most plausible basis for complex system-level adaptation is some form of macro-evolutionary selection: “[f]rom an evolutionary perspective... only when a society is a unit of selection.... does it function well as a unit.” On his analysis a complex social order will adapt to maintain its cooperative functionality only if, at the societal level, forces are constantly selecting more over less functional variants of its rules and institutions. Recall that the entire set of rules and social institutions generates what Hayek calls an “order of actions”—the emergent property of social order that arises in a rule-based society (SIV). Hayek ([1967] 2014, p. 280) seems to agree with Wil-

son: “[t]he evolutionary selection of different rules of individual conduct operates through the viability of the order it will produce.” The distinction between a set of rules and the emergent order of actions to which it gives rise is a fundamental insight of Hayek’s, which allows him to distinguish the focus of selective pressure (the overall functionality of the institutional order) and the underlying rules and institutions (that structure it), which are transmitted.⁶

Such evolution is a form of cultural multi-level (group) selection. As Hayek (1973, p. 18) says, “[t]he rules of conduct have ... evolved because the groups who practiced them were more successful and displaced others.” If society S_1 , characterized by order of actions O_1 , is more productive than S_2 based on O_2 , society S_1 will tend to win conflicts with S_2 , a mechanism akin to natural selection: O_1 is more adaptive than O_2 . Alternatively, the members of S_2 , seeing the better-off participants in S_1 characterized by O_1 , may either immigrate to S_1 , or seek to copy its underlying rules, thus inducing differential rates of reproduction between the sets of rules underlying S_1 and S_2 . The overall order of actions is adaptive because systematic selection pressures favor institutional frameworks that promote overall orders that are more adept at facilitating cooperation and securing its social benefits.

My concern here is not about the ultimate explanatory adequacy of the macro-selection account. Rather, for our purposes what is critical is Hayek’s great insight that it offers a promising explanation of the adaptiveness of the institutional framework that departs from mainline thinking. *If* there are strong macro-selection pressures, and *if* a large number of institutional frameworks compete, functional “wholes” can be selected even on relatively rugged landscapes such as Figure 1. Because the selection pressures are on the functionality of the entire framework, its interconnections are, in a sense, also selected. It is a potentially elegant solution to the problem of the adaptiveness of highly interconnected institutional frameworks—the problem with which self-organization-invisible hand analyses struggle.

Macro-selection, though, is manifestly a departure from the strongly bottom-up form of explanation to which mainline economics is devoted. Joseph Henrich (2016, p. 318), who adopts a broadly similar social evolution approach, explicitly compares individual cells in an organism to individuals in the evolving “superorganisms” of our societies. This is no mere metaphor: once the selection pressure is on the order as whole, its functionality, not the freedom of the agents, drives evolution. Whereas self-organized sys-

tems depend on allowing individuals large degrees of freedom to reflexively do their own thing in responding to the decisions of others (Ismael 2011, 2016), macro-selected systems' frameworks impose constraints on the freedom of the parts. On a multilevel (group) selection account, the higher-level (societal) selection inherently restrains lower-level (individual) activity. Indeed, there is no point to higher-level selection if it does not. Critical to the integrity of an organism is restricting the freedom of parts to go their own way—a cancer cell is precisely a part that has broken free of these restraints, and because of this threatens ultimate system collapse. We might say, in a rough and ready way, that restricting individual decisions in order to secure system-wide functionality is precisely what macro-selection accomplishes. How, then, can this provide a basis for an individualistic and liberal theory?

HAYEK'S INDIVIDUALISM AND LIBERALISM

Emergence, Macro-Selection and “Methodological Individualism”

Boettke (2018, pp. 4, 186-191) insists that it is an error to infer from Hayek's use of multi-level selection that he drew back from the core methodological individualism of the Austrian program. Now it is often not pellucid what “methodological individualism” is: sometimes the term indicates an explanatory reductionist program, sometimes a metaphysical claim about what are the “real entities” in society, sometimes a commitment to agent-based modelling of social outcomes, sometimes a type of subjectivism, sometimes a claim that social causation always runs from individual decisions to social facts. All are distinct. Caldwell (2004, pp. 279-287) rightly recognizes that, given his commitments to complexity theory and multi-level selection, if Hayek is a methodological individualist it is of a complicated type—perhaps what Philip Pettit (1993) has called “holistic individualism.”

Rather than staking any claim as to what “methodological individualism” might be, it is useful to stress commitments of Hayek's view that are, methodologically, unusual both in mainstream and mainline economics. Consider the claim that the “order of actions” is an emergent property of an institutional framework and the heterogenous individuals acting within it. Emergent properties are sometimes distinguished from mere “resultant” properties on the grounds that, while a resultant property is the expected consequence

of an underlying set of individual properties, emergent properties are often novel and unexpected. In perhaps the earliest analysis of such systems, John Stuart Mill (2006, pp. 370-373, 438-440) considered a system, say, S , composed of elements (e.g., rules) $\{r_1 \dots r_n\}$ and an emergent order O . Mill proposes three features of property O :

- (1) O is not the sum of $\{r_1 \dots r_n\}$;
- (2) O is of an entirely different character than $\{r_1 \dots r_n\}$;
- (3) O cannot not be predicted or deduced from the behavior of the members of $\{r_1 \dots r_n\}$ considered independently (i.e., apart from their interactions in S).

These claims defeat any reductionist program according to which claims about social properties can be reduced to those of individuals. Emergent properties are characterized by multiple realizability: the same emergent property can arise from different sets of individual properties. Hayek ([1964] 2014) stresses the novel O 's that may arise given the same underlying set of rules. This novelty implies a looseness between the individual properties and the emergent properties: knowing the full set of individual properties does allow prediction of the emergent properties.

The analysis becomes even less “individualistic” when we add macro-selection to complexity. To say that a set of rules was selected is—at least in the most straightforward cases—to say that it produced a more adaptive order of actions in comparison with competing rule sets. It is the functionality of the whole order that explains institutions—the explanation of an institution depends on its functional contribution to the whole. Indeed, once we take the perspective of complex systems we need to contemplate the antithesis of what some might consider the heart of methodological individualism: top-down causation: higher-level phenomenon cause lower-level ones (Ellis 2012).

Rather than worrying whether Hayek's analysis qualifies as some version of methodological individualism, I'd suggest that it is more productive to analyze the types of claims and processes that the Hayekian complexity/macroevolution thesis entails. Debates about methodological individualism are in many ways a quintessential mid-twentieth century obsession; as we have developed more sophisticated social analyses they seem more a blinder than a helpful lens.

Hayek's Two Liberalisms

Boettke (2018, p. 274) closes his fine book with a discussion of “true radical liberalism”—a theory about the framework of society. I concur that Hayek’s liberalism is a claim about the framework of a type of evolved complex society. As I understand it, the complexity/macro-selection perspective suggests that Hayek proposes two distinct liberalisms—the Whig and the radical.

Evolutionary macro-selection lays the foundation for a Whiggish liberalism. The crux of a macro-selection analysis is that we do not really understand what our rules do for us: they were selected as part of a functional whole. In his recent wide-ranging overview of cultural evolution Henrich (2016, p. 57) observes that “[I]ndividuals reliant on cultural adaptations often have little or no understanding of how or why they work, or even that they are ‘doing’ anything adaptive.” In particular “[s]ocial norms make it possible for humans to solve—often without anyone understanding how—what would otherwise be inescapable social dilemmas” (Henrich 2016, p. 145). In a fundamental sense, then, our institutional rules and norms cannot be understood, for we do not know why they were selected or what social ends they serve. Hayek (1973, p. 81) describes these rules as “purpose-independent.” This would certainly preclude standard consequentialist justifications of rules: we often do not know what rules do, for their effects may be linked in surprising ways to other rules. Yet Hayek (1988, p. 27) draws back from an evolutionary ethics in which the outcome of evolution simply defines the good or right. We must start with our evolved inheritance, but we must critically examine its features. The resulting liberalism is, as Hayek (1960, p. 409) explicitly holds, of a “Whiggish” inclination. Edmund Burke, a Whig admired by Hayek, was a moral critic of English policy towards the American colonies and the slave trade, while adamantly opposed to the radical social and moral reconstruction attempted by the French revolution. From within an evolved tradition (English law) one can strenuously criticize rules, laws and policies that violate its traditions—stepping back on this or that matter and evaluating it “piecemeal” in light of the whole (Hayek 1988, p. 8). But one cannot sensibly step back from the whole (as Burke believed the French sought to do), and seek to reconstruct the society in light of some philosophical commitment such as utilitarianism or naturalism rights. “We must always work inside a framework of values and institutions which is not of our own making” (Hayek 1960, p. 63). In the last few hundred years Western society has evolved a lib-

eral open society: on Hayek’s Whiggish liberalism, liberal principles arise from a critical reconstruction of its evolved content.

Hayek’s complexity analysis, however, points to a more radical liberalism. He (Ibid., p. 379ff) chides the conservative for accepting whatever outcome has been produced by the latest intervention, and so his failure to stand up for the core principles of a free order, such as liberty and property. Now interestingly, Hayek (Ibid., p. 401) believes that these principles can be derived—or at least confirmed by—the theory of complexity: “A commitment to principles presupposes an understanding of the general forces by which the efforts of society are co-ordinated, but it is such a theory of society and especially of the economic mechanism that conservatism conspicuously lacks.” The principles of liberty and property are firmly grounded in the need of individuals in complex systems to effectively reflexively adjust their behavior: “a state in which each can use his knowledge for his own purposes” (Hayek 1973, pp. 55-56). Freedom and markets, Hayek insisted, are first and foremost ways for individuals to successfully coordinate their heterogeneous plans, and adjust within a complex system. We are constantly tempted, says Hayek, to limit this freedom in the pursuit of desired collective outcomes, but these outcomes are most uncertain, and it is only the principle of freedom that allows the constant adjustments on which a complex order depends. He thus makes what *prima facie* appears as a startling claim for one who stresses uncertainty and complexity in social life: we should be dogmatic in our defense of liberal principles (Hayek 1973, p. 61; Mack 2006). This is surely a radical liberalism.

THE HAYEKIAN TRACK

Boettke’s book is an excellent account of Hayek’s critical contributions to mainline political economy. In this and other works Boettke has done us a great service in distinguishing mainline political economy from the highly formal, static, research program that has defined so much of modern mainstream economics. Yet we can understand the mainline tradition in various ways. I have suggested that, if we bring to the foreground evolutionary and complexity theses, we get a rather different view of the mainline tradition and Hayek’s place in it. If we focus on reciprocity, exchange and the division of labor we bring out the roots of market complexity and novelty. The invisible hand is the favored adaptive, self-organizing, mechanism in mainline economics. However, it has considerable difficulty in ex-

plaining just how the institutional framework for the invisible hand itself adapts. Here, I think, Hayek branches off the mainline, developing a highly innovative macro-evolution analysis—an analysis that, while still unpopular among economists, is at the forefront of the current social evolution research agenda. I myself am skeptical that this analysis ultimately succeeds, but we miss too much of Hayek’s stunning originality if we see him as too closely adhering to the main line.

NOTES

- 1 For important attempts see Alexrod (1981), Binmore (2005), Trivers (1971).
- 2 See Gintis, Boyd and Fehr (2005, chaps. 5-8), Gaus (2011, pp. 101-122).
- 3 And Smith (1976, vol. 1, p. 17) really is concerned with *contracting*: he is clear that trade is not simply a coincidence of passions where both may benefit from cooperation—something he thinks animals are capable of.
- 4 The work of Paul Lewis (2012, 2015a, 2015b, 2016a, 2016b, 2017) has tremendously deepened our knowledge of the development of Hayek’s complexity theory.
- 5 On such similarity measures, see Gaus (2016, pp. 51-61, 251-259).
- 6 There is an obvious analogy here to natural selection: selective pressures select a successful phenotype, with the underlying genotype being transmitted.

REFERENCES

- Arthur, W. B. 2015. *Complexity in the Economy*. Oxford: Oxford University Press.
- Axelrod, R. 1981. The Emergence of Cooperation Among Egoists. *The American Political Science Review*. 75 (2): 306-318.
- Beinhocker, E. D. 2013. Reflexivity, Complexity, and the Nature of Social Science. *Journal of Economic Methodology*. 20 (4): 330-342.
- Binmore, K. 2005. *Natural Justice*. Oxford: Oxford University Press.
- Boettke, P. J. 2018. *F. A. Hayek: Economics, Political Economy and Social Philosophy*. London: Palgrave Macmillan.
- Boettke, P. J., Haefele-Balch, S. and Storr, V. H. 2016. What is Mainline Economics? In: *Mainline Economics: Six Nobel Lectures in the Tradition of Adam Smith*. Arlington: Mercatus Center, pp. 1-23.
- Caldwell, B. 2004. *Hayek’s Challenge: An Intellectual Biography of F.A. Hayek*. Chicago: University of Chicago Press.
- Ellis, G. F. R. 2012. Top-down Causation and Emergence. *Interface Focus*. 2 (1): 126-140.
- Gaus, G. 2011. *The Order of Public Reason*. Cambridge: Cambridge University Press.
- _____. 2016. *The Tyranny of the Ideal*. Princeton: Princeton University Press.
- _____. (forthcoming). What Might Democratic Self-governance in a Complex Social World Look Like? *San Diego Law Review*.
- Gintis, H., Boyd, S. and Fehr, E. (eds.) 2005. *Moral Sentiments and Material Interests: The Foundation of Cooperation in Economic Life*. Cambridge: MIT Press.
- Gowdy, J., Mazzucato, M., van den Bergh, J. C. J. M., van der Leeuw, S. E. and Wilson, D. S. 2016. Shaping the Evolution of Complex Societies. In: Wilson, D. S. and Kirman, A. (eds.) *Complexity and Evolution*. Cambridge: MIT Press, pp. 327-350.
- Hayek, F. A. 1960. *The Constitution of Liberty*. Chicago: University of Chicago Press.
- Hayek, F. A. 1973. *Law, Legislation and Liberty*, vol. 1, *Rules and Order*. Chicago: University of Chicago Press.
- _____. [1964] 2014. The Theory of Complex Phenomena. In: Caldwell, B. (ed.) *The Collected Works of F. A. Hayek*, Vol. 15, *The Market and Other Orders*. Chicago: University of Chicago Press, pp. 257-277.
- _____. [1967] 2014. Notes on the Evolution of the Rules of Conduct. In: Caldwell, B. (ed.) *The Collected Works of F. A. Hayek*, Vol. 15, *The Market and Other Orders*. Chicago: University of Chicago Press, pp. 278-292.
- _____. [1975] 2014a. The Pretence of Knowledge. In: Caldwell, B. (ed.) *The Collected Works of F. A. Hayek*, Vol. 15, *The Market and Other Orders*. Chicago: University of Chicago Press, pp. 362-372.
- _____. 1988. *The Fatal Conceit: The Errors of Socialism*. In: Bartley, W. W. III (ed.) *The Collected Works of F. A. Hayek*, Vol. 1. Chicago: University of Chicago Press.
- _____. 2010. The Subjective Character of the Data of the Social Sciences. In: Caldwell, B. (ed.) *The Collected Works of F. A. Hayek*, Vol. 13, *Studies in the Abuse and Decline of Reason*. Chicago: University of Chicago Press, pp. 88-98.
- Henrich, J. 2018. *The Secret of Our Success*. Princeton: Princeton University Press.
- Ismael, J. T. 2011. Self-Organization and Self-Governance. *Philosophy of the Social Sciences*. 41 (3): 327-351.

- _____. 2016. *How Physics Makes Us Free*. Oxford: Oxford University Press.
- Jevons, W. S. 1965. *The Theory of Political Economy*. Fifth edition. New York: Augustus M. Kelley.
- Kauffman, S. A. 2018. *A World Beyond Physics*. Oxford: Oxford University Press.
- _____. 1993. *The Origins of Order*. New York: Oxford University Press.
- Lewis, P. 2012. Emergent Properties in the Work of Friedrich Hayek. *Journal of Economic Behavior and Organization*. 82 (2): 368-378.
- _____. 2015a. An Analytical Core for Sociology: A Complex, Hayekian Analysis. *Review of Behavioral Economics*. 2 (1-2): 123-136.
- _____. 2015b. Notions of Order and Process in Hayek: The Significance of Emergence. *Cambridge Journal of Economics*. 39 (4): 1167-1190.
- _____. 2016a. Systems, Levels of Organisation and Structural Properties: The Influence of Ludwig von Bertalanffy on the Development of F.A. Hayek's Work on Complexity. *Research in the History of Economic Thought and Methodology*. 34 (A): 125-159.
- _____. 2016b. The Emergence of 'Emergence' in the Work of F. A. Hayek. *History of Political Economy*. 48 (1): 111-150.
- _____. 2017. The Ostroms and Hayek as Theorists of Complex Systems: Commonality and Complementarity. *Advances in Austrian Economics*. 22: 35-66.
- Mack, E. 2006. Hayek on Justice and the Order of Actions. In: Feser, E. (ed.) *The Cambridge Companion to Hayek*. Cambridge: Cambridge University Press, pp. 259-286.
- Mill, J. S. 2006. *A System of Logic*. In Robson, J. M. (ed.) *The Collected Works of John Stuart Mill*, vol. 7. Indianapolis: Liberty Fund.
- Ostrom, E. 2014. An Agenda for the Study of Institutions. In Sabetti, F. and Aligica, P. D. (eds.) *Choice, Rules and Collective Action*. Essex: ECPR Press, pp. 97-119.
- Pettit, P. 1993. *The Common Mind*. Oxford: Oxford University Press.
- Schumpeter, J. A. 1950. *Capitalism, Socialism and Democracy*. Third edition. London: Allen and Unwin.
- Smith, A. [1776] 1976. *The Wealth of Nations*. Cannan, E. (ed.). Chicago: University of Chicago Press.
- Trivers, R. L. 1971. Evolution of Reciprocal Altruism. *The Quarterly Review of Biology*. 46 (1): 35-57.
- Wilson, D. S. (2016). Two Meanings of Complex Adaptive Systems. In Wilson, D. S. and Kirman, A. (eds.) *Complexity and Evolution: Toward a New Synthesis for Economics*. Cambridge, MA: MIT Press, pp. 31-46.

F. A. Hayek, *Gemeinschaft* and *Gesellschaft*, Globalization and Digitalization

STEFAN KOLEV

Email: stefan.kolev@fh-zwickau.de

Web: <http://www.hwwi.org/ueber-uns/team/autor/stefan-kolev.html>

INTRODUCTION

Peter Boettke has written a truly multifaceted book (Boettke 2018) on one of the most complex liberal thinkers of the 20th century. As I have reviewed the plenty of the book elsewhere (Kolev 2019a), in this essay I would like to focus on one specific aspect which I believe is crucial for F. A. Hayek's reception today: the perennial tension between the logic of the small group and the logic of the extended order, a tension which humans have had to endure ever since we entered modernity. While famously depicted by Ferdinand Tönnies with the terms "*Gemeinschaft*" and "*Gesellschaft*" (Tönnies 1887) to capture the duality of living in a community and living in a society, this duality is certainly not Tönnies' invention—instead, it has occupied the attention of what Boettke has called elsewhere "mainline economists" (Boettke 2012) at least since the Scottish Enlightenment. And this duality doubtlessly constitutes one of F. A. Hayek's main concerns in his social philosophy: How the logic of the small group continuously threatens and challenges the logic of the extended order regarding the latter's legitimacy in the minds of the citizenry.

The core of this paper revisits this fundamental tension as it presents itself in our global-digital age, especially as Western democracies on both sides of the Atlantic have experienced truly traumatic events for their liberal order (at least) since 2016—including a new sense of how fragile this order and its interdependent sub-orders present themselves. In a parallel development, "Austrians" on both sides of the Atlantic have recently experienced serious institutional splits and ruptures about current issues like migration (Horn 2015), that are well reconstructable along the *Gemeinschaft-Gesellschaft* demarcation line. My goal in the paper is to examine how the two megatrends of our time, globalization and digitalization, may reinforce the logics of *Gemeinschaft-Gesellschaft*, and what this could mean for the theory and policy of Boettke's Hayekian "learning liber-

alism". Regarding the ruptures among "Austrians", putting Boettke's warning call that "liberalism is liberal" (Boettke 2017) in the context of the two megatrends that can make it even more effective for today and tomorrow.

DISCONTENT WITH GLOBALIZATION: IS THIS TIME DIFFERENT?

Why are so many citizens—in the West and also elsewhere—currently turning their back on the order of liberal globalism? This question is of course anything but new, it could have been (and was) posed at very diverse junctures during the 19th and 20th century: during the upcoming of aggressive nationalism in the late 19th century, on the paths taken in Russia post-1917 and in Germany post-1933, or amid the anti-globalization movement at the turn to the new millennium. What has happened since 2016—in the US since the presidential election, in the UK since the Brexit referendum, and in Central and Eastern Europe since the emergence of the new so-called "illiberal democracies"—could either be put in the tradition of the aforementioned ruptures, or could require a "this time is different" interpretation. Let us explore these two potentially diverging (but not mutually exclusive) readings.

What I see as the common traits of the enlisted moments, despite all obvious historical heterogeneity, is their shared revolutionary quest to preclude a further unfolding—or to even trigger a complete rollback—of the order of liberal modernity. "Modernity" is understood here as the set of civilizational patterns which the vigilant Scottish Enlighteners observed in the transformation of their "lifeworlds" during the late 18th century, and pinpoints these observations on the emergence of the Smithian "great society" (Smith [1759] 1976, part II, section II, chapter iii; Smith [1776] 1976, book I, chapter ii). Living in the context of modernity's great society—but of course nevertheless also in the various small groups like the village, family, parish, or clubs—has put a

significant strain on our mind ever since, as both logics can be portrayed in diametrically different categories: 1) while the small group ensures concrete interactions with the surrounding, directly visible individuals, the great society is full of abstract exchange, often in complete anonymity and invisibility; 2) while in the small group a high degree of homogeneity prevails, a cornerstone of the great society's prosperity is heterogeneity across individuals, for example regarding religious or ideological attitudes; 3) while the small group's composition is usually fairly static, the great society can be dramatically dynamic. Important for this interpretation, the historical junctures mentioned above share one particular pattern: the construction of group identities. From the construction of "rankings" of nations or races in the 19th century, of class-based and race-based mentalities in Russia and Germany, of the "Global South" or of national anti-establishment mentalities: These processes are, above all, about belonging to a community. Large or small, real or virtual: When aiming to belong to a community, one can easily derive his or her identity from differentiating oneself from other communities, as well as from mobilizing forces within the newly found mental home against the abstract, cold, anonymous, invisible exchange processes of the great society.

So much for the commonalities. What might be specific about the most recent backlash against globalization? To begin with, it seems rooted in both material and ideational causes, constituting a paradigmatic Millian "conspiracy of interests and ideas" (Mill [1845] 1991, p. 503). The speed and scope of globalization since the 1980s have produced a sizable proportion within the citizenry of Western societies who see themselves as losers of globalization. Whether this is factually true or not, as heatedly debated among economic historians (Piketty 2014; McCloskey 2016): Since David Hume ([1742] 1987, part I, essay V) and Walter Lippmann (1922), we can plausibly claim that it is subjective opinions rather than objective facts that are decisive for the "political" in political economy. And here the material transformations following the globalization-related surge of trade, investment, and migration combine with powerful ideational forces stemming from public intellectuals like Joseph Stiglitz, Paul Krugman, Greta Thunberg, or Slavoj Žižek: With different arguments, they reinforce the opinion that globalization is above all a rigged game producing exploitation, inequality, and environmental damage. This "conspiracy of interests and ideas" has proved rather explosive so far: Even though in 2019 many Western economies produce the best macroeconomic figures imaginable, re-

gardless of the sustainability of this boom, the political systems in almost all Western democracies are experiencing an extremely demanding "stress test" grounded in polarization and ever-stronger extremes. In line with so-called "horseshoe theory" (Faye [1972] 2004; Backes 2006), today's extremes also show tendencies of coalescing ("les extrêmes se touchent") against an ever-weaker center (Economist 2013; Craiutu 2017; Kolev 2019b).

Still, this "conspiracy" is not unique if we look back at the past two centuries. What makes things "really" unique, is the nature of the technological ruptures which have taken place in the past three decades since the World Wide Web began transforming our world starting in the 1990s. These ruptures, their effects, and the possibly necessary policies will be at the center of the rest of this essay.

DIGITALIZATION AND KNIGHT-POPITZIAN "ORDER UNCERTAINTY"

To begin with, any definitive judgment about the nature and effects of digitalization is certainly premature and cannot be anything but a very tentative "groping in the dark". And this is one of the fundamental differences to globalization: We have had exposure to waves of globalizations for centuries if not millennia, while our exposure to digitalization is only few decades old, and there are indications discussed below that digitalization may be qualitatively different from the triggers of earlier industrial revolutions. This section looks at digitalization by combining two notions: "uncertainty" as understood by Frank Knight (Knight [1921] 1964), and "order security" as understood by German sociologist Heinrich Popitz (Popitz [1986] 2017).

Liberal political economists are sometimes (too) quick to simply declare that we are facing in digitalization another example of Schumpeterian creative destruction. However, already today two rather specific traits of this peculiar Schumpeterian process are discernible: 1) its forces are impressive in the scope of domains they hit, and 2) the speed of its unfolding is breathtaking. Liberal political economists are generally open-minded to such processes and their inherent dynamics—but *only* under the dual condition that the process takes place within an efficient humane order (Eucken [1940] 1950, pp. 315-317; Eucken [1952] 2004, pp. 372-374). This condition is the real issue here: To what extent do our judgment standards for an order have to change when so many *interdependent* societal suborders are *simultaneously* undergoing the transformation from analog to digital? Can this peculiar Schumpeterian process destroy

orders without creating new ones, as seen from the perception of the affected individuals?

This question concerns both the levels of the “rules of the game” and of the “moves of the game”. As far as the rules are concerned, digitalization undoubtedly means a permanent pressure to constantly reconsider, and to set new ones in the event of significant changes in the processes encased by the rules. It is also plausible that the enforcement of rules in the digital world will probably become less easy for nation states. Even more important may be the impact on the moves. The aforementioned radical forces of digital change can plunge the players into an equally radical uncertainty about their future: When entire industries and professions disappear, high proportions of both human capital of the individual and social capital of the group have to be “written off”. Those individuals and groups who have become “obsolete” as a result of digitization can therefore feel existentially threatened. In a certain sense, this is still categorically comparable with the effects that are already known from the globalization-related structural change, for which economic policy can fortunately resort to existing best practices.

A genuinely novel challenge associated with digitization lies in its speed. Every human sensory order—and the associated transition in one’s perception from chaos to order—presupposes that one has the cognitive abilities to grasp this transition and to process it psychologically. However, every cognitive process of this kind necessarily takes time, as it requires something essential for any liberal order: learning (Boettke 2018, pp. 81-88). If one’s subjective perception of patterns—a notion truly fundamental not only for Hayek’s psychological inquiries (Hayek [1952] 2017), but also for his political economy (“pattern prediction”) and social philosophy (“the state as gardener of an English garden”)—are changing because of encompassing and fast change in the objective reality, the danger increases that some citizens may start perceiving their lifeworld as permanently chaotic. In that case they may no longer be able to extract any principles of order from their lifeworld, as they fail to catch up with the velocity of learning required by the order’s transformation. Two properties of such a development are worth underscoring: 1) the ability to adapt is intimately connected to one’s *subjective* capability to learn characterizing those individuals affected by digitalization, as opposed to some objective measure of transformation set by an allegedly neutral scholarly observer, and 2) digitalization affects the order in a *qualitative* manner since its effects on the different sub-orders of society do not simply add up in

a quantitative sense, but instead can interdependently reinforce themselves and categorically change the order vs. chaos perception of reality of the individuals affected by digitalization, pushing it towards chaos.

In a preliminary conclusion, today’s comeback of *Gemeinschaft* can be explained as follows: In the eyes of many citizens, the world has become “too dynamic”. If this diagnosis is correct, the therapy seems obvious: The order we live in must offer “more statics” or, to put it somewhat more precisely, clear “fixed points”, i.e. elements of the institutional framework that assist the individuals not to lose orientation amid their “too dynamic” order. By the provision of fixed points, the aforementioned perception of chaos can give way to a new recognition of order and its principles through newly enabled learning. But how could such a therapy come about? A history of economics approach seems promising here: It will not be harnessed as a meticulous exegesis of dogmas, but will instead focus on identifying the urgently necessary theorizing of order for our global-digital age.

HAYEK VS. RÖPKE ON *GEMEINSCHAFT* AND *GESELLSCHAFT*: THEORY AND POLICY

The order theories of F. A. Hayek and Wilhelm Röpke can also be juxtaposed precisely along the *Gemeinschaft-Gesellschaft* demarcation line. Although their theoretical systems resemble each other in many ways, they are diametrically opposed to each other along this line: As mentioned at the outset of the paper, Hayek’s great concern is that the *Gemeinschaft* logic of the small group continuously counteracts or even disrupts the rules of the *Gesellschaft* logic. In contrast, Röpke is driven by the quest of how the coordination mechanisms of the small *Gemeinschaft* can be preserved from the dangers of a predominant *Gesellschaft* whose role in modernity constantly expands, possibly at the cost of the logic of community. So while Hayek identified early on modernity as well as its great society as the central building block of his order theory (Hayek [1945] 1948, pp. 3-5), and reframed them in his late work towards the formula of the “extended order” (Hayek 1988), for Röpke it was precisely this modernity that he saw as a process with considerable destructive or even explosive force for human co-existence (Röpke 1947; Röpke [1958] 1960, pp. 7-20). Röpke’s stance is not only reminiscent of modern communitarianism (Renner 2002, p. 217), but also of Hirschman’s thesis of feudal blessing, according to which traditional modes of reciprocity exchange could prove to be socially “useful” if

they precluded the destruction of socially necessary norms (Hirschman 1982).

Modernity is an extremely young product of Western civilization in comparison to human history, and it is a phase which can be depicted by two central characteristics: 1) the differentiation of the societal suborders instead of the merged lifeworld of the traditional village, and 2) the increase in abstract-anonymous interpersonal relationships instead of exchange with concrete-known persons in locally narrowly defined areas. Hayek's decades-long quest for a "Constitution of Liberty" aimed precisely at finding those sets of rules in which the modernity-related logic of the extended order could be brought closer to legitimacy in the eyes of the citizens, having experienced that they often find this logic counterintuitive or even absurd because of their ancestors' millennia-long existence in village communities.

Röpke's efforts to establish and preserve a "Civitas Humana" go in exactly the opposite direction, i.e. towards the rooting of the individual in the traditional and manageable nature of coordination mechanisms in small groups, aiming to counteract the, in his view, highly problematic process of "massification" and the disorientation of modernity. These different approaches clearly show the rather different leitmotifs of the individual and of society in Hayek's and Röpke's thought. Historically, liberalism in its many facets has certainly not developed a consistent and consensual position on these fundamental questions. However, it may be precisely this richness of facets that often makes liberal thinkers stimulating for later generations—even though, at the same time, misunderstandings about fundamental positions across different liberal currents can hardly be denied and often also not resolved or reconciled.

Such diverging order-theoretical positionings also entail direct order-political consequences: I will focus here on the provision of social security. In Part III of his "Constitution of Liberty" (Hayek [1960] 2011), Hayek outlined a program of liberal social policy, the core being to transfer the generality principle of the rule of law (and of Freiburger "Ordnungspolitik") to social policy, i.e. to organize the various policies and measures through generalizable rules (Fritz 2016). With this, he implicitly argued how the provision of a social security minimum that equally applies to all members of the jurisdiction is not only not necessarily a contradiction to the liberal understanding of the state, but that it can be understood as a vitally necessary component of the extended order (Kolev 2017, pp. 265-270). As it is widely known, this book—and here especially Part III—brought him the biting critique of self-proclaimed "consequent" or

"uncompromising" libertarians like Murray Rothbard or Hans-Hermann Hoppe who saw his program as being close to what a social democrat would argue for (Rothbard 1980; Hoppe 1994).

This paper provides a specific perspective on the provision of social security, again along the *Gemeinschaft-Gesellschaft* demarcation line. To begin with, the attempt of some liberals to ban the state from conducting social policy and to delegate it exclusively to the voluntary coordination mechanisms of the various community contexts (family, church, neighborhood, etc.) is inconsistent with Hayek's encompassing plea for the comprehensive validity of an extended order logic. The extended order would have a highly problematic "open flank" if it did not itself offer solutions for cases of social hardship, but instead depended on what Hayek called "atavisms" of the millennia-long life in community, and that at such a neuralgic point. Theorizing the liberal welfare state brought Hayek little sympathy: Apart from the libertarian voices mentioned above, the book and its policy proposals were also criticized from some of his closest contemporaries (Mises [1960] 2008; Robbins 1961; Viner 1961). Similarly, Röpke's counter-proposal of providing security above all in the community also received multiple critiques and has been described as naively conservative (Burgin 2012, pp. 139-146; Gregg 2010, pp. 173-181) up to the recent characterization as a "retro utopia" (Solchany 2015, p. 570). Paradigmatic for Röpke's leitmotif to solve cases of social hardship is his model of the small town—or, more generally, of small units in economy and society—as the ideal environment for human existence and association. It almost sounds as a version of the "small is beautiful" motto that became so popular in the decades after Röpke's passing in 1966 (Schumacher 1973) and has been aptly termed a "liberalism from below" (Sally 1998, p. 131). Röpke's vision of an "economic humanism" (Christ 2018, pp. 44-48) is based on personal independence and, given the interpersonal visibility in such a context, on interpersonal solidarity, while he saw social policy coming from the state with suspicion and as a threat to disintegrate the traditional community, potentially putting the individual's independent existence into the position of a "comfortable stall-feeding" (Röpke [1958] 1960, p. 170) by the "pumping engine" of the welfare state targeted at full employment (Röpke [1942] 1950, p. 171; Röpke [1958] 1960, p. 157).

So even though regarding the central duality of this paper Hayek and Röpke opted for diametrically opposed primacies—Hayek for *Gesellschaft*, Röpke for *Gemeinschaft*—their concern about the provision of security, from *Gesellschaft* or

Gemeinschaft, can still be read in a unified way. In the reading of the paper, this security provision can be interpreted as caring about the provision of indispensable fixed points: As discussed in the earlier sections, such fixed points as elements of the institutional framework are crucial in the “too dynamic” times that some experience, so that the perception of order is retained and the individual’s ability to learn and adapt (Boettke 2018, pp. 81-88) is preserved—instead of tipping into a perception of chaos. In this interpretation, a subjective sense of security is an essential prerequisite for one’s life-long ability and willingness to learn.

LIVING IN GLOBALIZED *GESELLSCHAFT* AND DIGITALIZED *GEMEINSCHAFT*: POLARIZATION OR SYNTHESIS?

How does this history of economics exercise on *Gemeinschaft* and *Gesellschaft* relate to the claim regarding our global-digital age that social policy today should primarily aim at providing fixed points? The relation is quite direct: Essential traits of globalization can be understood as a reinforcing the dominance of the logic of *Gesellschaft*, while much in the process of digitization can lead to a certain comeback of *Gemeinschaft*. Let me illustrate this by depicting two sub-phenomena which, according to the current state of affairs, play a central role for both globalization and digitization: 1) competition, and 2) social media. 1) The deepening specialization of the international division of labor and knowledge, essentially due to the decline in transportation and communication costs, is permanently intensifying the competitive pressure not only for companies, but also for locations as jurisdictions worldwide. These two levels of competition—for companies and for locations—simultaneously affect the existence of individuals as an employee and as a citizen, and the pressure has grown if compared to earlier decades with their lower intensity of globalization. Each individual is pressured to understand that he or she is part of a global process structured and run by the abstract rules of the extended order. To many, these rules appear today as being beyond one’s own control, leading to fundamental ruptures in the political system that—so far—is seen as having promoted globalization, visible for example in the currently strong anti-migration sentiments on both sides of the Atlantic. In addition, the market game—along with making us richer and giving us an increasing number of options, things often taken for granted—is more and more perceived as taking place in anonymous interactions which make the competitive pressure

even more difficult to bear and create a sense of anxiety vis-à-vis one’s anonymous international competitors.

2) At the same time, in the face of digitization which is essentially caused by the decline in communication costs due to inventions and innovations in IT, our everyday life is increasingly characterized by using applications of social media. They enable the individual to no longer be just a consumer, but also a producer of media content, which, in addition to the effect of a growing fragmentation in the media space, entails that the individual is now able to form genuinely new virtual communities at infinitesimally low cost, for example groups on Facebook or WhatsApp. In addition, applications like Skype give us back the visibility which so many bemoaned to be lost due to the competitive pressure of work-related mobility amid globalization. This comeback of *Gemeinschaft* certainly has effects on individual behavior, and also applies—in a modified form—to virtual communities, although certain forms of reputation and trust-building show themselves differently here than in the immediate interactions of individuals in a concrete geographical area.

In both globalization and digitalization, one can also recognize the dangers that Hayek and Röpke identified in the conflict between the logics of *Gemeinschaft* and *Gesellschaft*. Global competition leads to the permanent necessity to learn and adapt, as well as to constant occupational mobility within the country or across countries, which can have serious disadvantages for the new formation of, and the embeddedness in, families and local communities—so far Röpke’s skepticism towards *Gesellschaft* appears vindicated. Social media, on the other hand, can lead to the formation of groups which often turn out to be so homogeneous that the pluralistic discourse of modernity hardly takes place anymore. In the course of time, the content of the social media group can thus turn increasingly extreme and one-sided, to the point where tolerance, plurality, and diversity, so indispensable for *Gesellschaft*, are rejected by this new *Gemeinschaft*—so far Hayek’s skepticism towards *Gemeinschaft* appears vindicated. In this perspective, globalization and digitization not only lead to more dynamics in our lifeworlds, but their parallel coexistence can also create more instability through positive feedbacks that amplify the respective logic of *Gesellschaft* or *Gemeinschaft*. This could lead to an increased polarization for the citizen’s mind confronted with the tensions of the two logics, making the pre-digital tension of living in a modern society and in communities even more difficult to handle cognitively.

However, this is not the inescapable conclusion from the interaction of both megatrends. One can also examine the thesis that both processes—precisely because of their simultaneity—behave to each other as complements, and thus partly cancel out their potentially undesirable effects. The argument would go like this: While it is true that in times of globalization individuals probably have to become more mobile in their “real life”, digital technologies enable them in their “virtual life” to partially compensate the social uprooting and the loss of embeddedness. Today’s circle of friends is no longer tied to a specific time and place to the extent it was in the pre-digital world decades ago. And while it is true that digitalization in “virtual life” can lead to more “echo chambers” in which the content can radicalize due to the sourcing of information within self-imposed “filter bubbles”, in the increasingly global “real life” we are constantly confronted with diverse cultures, ideologies, and ways of life. In such a reading, the antithetic coexistence in a globalized *Gesellschaft* and in many digitalized *Gemeinschaften* suddenly appears as a curious form of synthesis.

In case this optimistic reading turns out to be valid, is there nothing left for policy? Does such a global-digital system regulate itself completely automatically, in that the antithetical logics of community and society are synthetically neutralized and offset due to the simultaneity of globalization and digitization? As pointed out in the beginning of the essay, it is certainly too early for such comprehensive forecasts due to our far too short exposure to digitalization. But at least it makes sense to point to this possibly of complementarity: Perhaps such a reading could resemble the alleged contradictoriness of the *doux-commerce* thesis on the one hand, and the self-destruction thesis of the market on the other, which Hirschman (1982) summarized in such a way that the system-stabilizing and the system-destroying power of anonymous market relations can work simultaneously and one must focus on preventing the dominance of the destructive elements.

The necessity of “more statics” via fixed points remains an important plea resulting from this analysis. As the global-digital age continues to unfold, what needs to be observed with particular attention is how the “market-state-civil society triad”, and here especially the “division of labor” among the three, may change and transform. Markets obviously become more and more dynamic if we maintain their present institutional framework and if the world evolves (halfway) peacefully. In the Hayekian interpretation of this paper, the state could become the guarantor and liberal provider of social security: For those who temporar-

ily fall out of the dynamic division of labor and knowledge, the state would offer via social policy temporary stability in the sense of “statics” and enable them—not only by alimention, but even more by requalification and by assistance to regain trust in one’s own autonomy and learning capabilities—to return to an emancipated, humane life based on self-responsibility. As always, this provision of social security can certainly be complemented by assistance stemming from the diverse voluntary associations of Tocquevillian civil society—and its institutions will certainly profit from the new digital opportunities for self-organization, visible in practices like crowdfunding. It seems nevertheless unlikely that civil society will be able to substitute the comparative advantage of the state, which is to provide a *general* level of security *for all*, as opposed to the specialized assistance for specific hardships provided by civil society charities. But it is quite likely that, in line with Václav Havel’s vision (Havel 1995), digitalized civil society may be able to find solutions for more and more issues which in the past were either classified as common-pool resource problems, i.e. solvable within a community but entailing substantial internal coordination efforts (Ostrom 1990), or even as public good problems that, in the pre-digital age, were only deemed solvable if the state stepped in.

CONCLUSION

This paper presented Hayek as a representative of the “thinking in orders” tradition in political economy and addressed a crucial aspect of his order theory: the primacy of *Gesellschaft* over *Gemeinschaft* in Hayek’s comprehensive plea for the logic of modernity’s extended order. The two Tönniesian forms of association are mapped to the two megatrends of our time, globalization and digitalization, claiming that globalization tends to reinforce the logic of *Gesellschaft*, while digitalization may amplify the logic of *Gemeinschaft*. Before discussing the possible antithetical or synthetical effects of globalization and digitalization on the individual’s perceptions of this central tension of modernity, a common property of both megatrends: Each of them, and even more so in combination, tends to produce a sense of ever-increasing order dynamics. The central plea of the paper is that this burden for the individual’s sensory order in the global-digital age must be taken seriously by Hayekians, both when theorizing order and when searching for adequate policies. A sense of an order being “too dynamic” can prove highly detrimental for the polity, as citizens start classifying as chaos what was previously seen as order. To preclude such a

perception, the paper recommends considering the notion of fixed points, i.e. elements of the institutional framework that assist the individual not to lose orientation and to successfully handle the prevalent “order uncertainty”, a notion coined in the paper by enhancing Knightian uncertainty with Heinrich Popitz’s concept of order security. Regardless if these fixed points may be provided by a Hayekian welfare state, by a civil society, or simultaneously by both, I claim that the sense of subjectively sufficient security is an essential prerequisite of a stable liberal order, one that must be provided by the institutional framework in moments when the individual temporarily drops out of the division of labor and knowledge. Otherwise the extended order of our global-digital modernity—palpably fragile as it presents itself in 2019—could fail at the very point identified by Boettke as the core of Hayek’s epistemic liberalism: the individual’s capability and willingness to learn and adapt to the extended order’s logic of *Gesellschaft*.

REFERENCES

- Backes, U. 2006. *Politische Extreme. Eine Wort- und Begriffsgeschichte von der Antike bis zur Gegenwart*. Göttingen: Vandenhoeck & Ruprecht.
- Boettke, P. J. 2012. *Living Economics: Yesterday, Today and Tomorrow*. Oakland: The Independent Institute.
- _____. 2017. The Challenges Facing Liberalism in the 21st Century. *Foundation for Economic Education* November 26, 2017. <https://fee.org/articles/the-challenges-facing-liberalism-in-the-21st-century/>. Accessed 8 September 2019.
- _____. 2018. *F. A. Hayek. Economics, Political Economy and Social Philosophy*. London: Palgrave Macmillan.
- Burgin, A. 2012. *The Great Persuasion. Reinventing Free Markets since the Depression*. Cambridge: Harvard University Press.
- Christ, K. 2018. A Measure of Judgments—Wilhelm Röpke’s Methodological Heresy. *ORDO*. 69: 35-50.
- Craiu, A. 2017. *Faces of Moderation. The Art of Balance in an Age of Extremes*. Philadelphia: University of Pennsylvania Press.
- Economist*, *The*. 2013. Is *The Economist* Left- or Right-Wing? Neither. We Consider Ourselves to Be in the ‘Radical Centre’. September 3.
- Eucken, W. [1940] 1992. *The Foundations of Economics: History and Theory in the Analysis of Economic Reality*. Berlin: Springer.
- _____. [1952] 2004. *Grundsätze der Wirtschaftspolitik*. Tübingen: Mohr Siebeck.
- Faye, J.-P. [1972] 2004. *Langages totalitaires*. Paris: Éditions Hermann.
- Fritz, R. 2016. *Der Hayekianische Wohlfahrtsstaat im Licht gegenwärtiger Sozialstaatsforschung*. WU Vienna University of Economics and Business, Master Thesis.
- Gregg, S. 2010. *Wilhelm Röpke’s Political Economy*. Cheltenham: Edward Elgar.
- Havel, V. 1995. *Toward a Civil Society: Selected Speeches and Writings 1990-1994*. Prague: Lidové Noviny.
- Hayek, F. A. [1945] 1948. Individualism: True and False. In Hayek, F. A. (ed.) *Individualism and Economic Order*. Chicago: University of Chicago Press, pp. 1-32.
- _____. [1952] 2017. *The Sensory Order and Other Writings on the Foundations of Theoretical Psychology*. Chicago: University of Chicago Press.
- _____. [1960] 2011. *The Constitution of Liberty*. Chicago: University of Chicago Press.
- _____. 1988. *The Fatal Conceit: The Errors of Socialism*. In: Bartley, W. W. III (ed.) *The Collected Works of F. A. Hayek*, Vol. 1. Chicago: University of Chicago Press.
- Hirschman, A. O. 1982. Rival Interpretations of Market Society: Civilizing, Destructive, or Feeble? *Journal of Economic Literature*. 20 (4): 1463-1484.
- Hoppe, H-H. 1994. F. A. Hayek on Government and Social Evolution: A Critique. *Review of Austrian Economics*. 7(1): 67-93.
- Horn, K. 2015. Die rechte Flanke der Liberalen. *Frankfurter Allgemeine Zeitung*, May 17.
- Hume, D. [1742] 1987. *Essays Moral, Political, and Literary*. Indianapolis: Liberty Fund.
- Knight, F. H. [1921] 1964. *Risk, Uncertainty and Profit*. New York: Augustus M. Kelley.
- Kolev, S. 2017. *Neoliberale Staatsverständnisse im Vergleich*. Berlin: De Gruyter.

- _____. 2019a. Review of Peter J. Boettke, 'F. A. Hayek. Economics, Political Economy and Social Philosophy'. *Economia — History / Methodology / Philosophy* forthcoming.
- _____. 2019b. Besieged by the Left and the Right: The Order of Liberal Globalism. *Review of Austrian Economics*, doi: <https://doi.org/10.1007/s11138-019-00473-w>.
- Lippmann, W. 1922. *Public Opinion*. New York: Harcourt, Brace and Company.
- McCloskey, D. N. 2016. *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World*. Chicago: University of Chicago Press.
- Mill, J. S. [1859] 1991. *On Liberty and Other Essays*. Oxford: Oxford University Press.
- Mises, L. v. [1960] 2008. Liberty and its Antithesis. In Mises, L. v. (ed.) *Planning for Freedom: Let the Market System Work*. Indianapolis: Liberty Fund, pp. 111-116.
- Ostrom, E. 1990. *Governing the Commons. The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press.
- Piketty, T. 2014. *Capital in the Twenty-First Century*. Cambridge: Harvard University Press.
- Popitz, H. [1986] 2017. *Phenomena of Power. Authority, Domination, and Violence*. New York: Columbia University Press.
- Renner, A. 2002. *Jenseits von Kommunitarismus und Neoliberalismus. Eine Neuinterpretation der Sozialen Marktwirtschaft*. Graftschaff: Vektor.
- Robbins, L. 1961. Hayek on Liberty. *Economica* 28 (109): 66-81.
- Röpke, W. [1942] 1950. *The Social Crisis of Our Time*. Chicago: University of Chicago Press.
- _____. 1947. *Das Kulturideal des Liberalismus*. Frankfurt: G. Schulte-Bulmke.
- _____. [1958] 1960. *A Humane Economy: The Social Framework of the Free Market*. Chicago: Henry Regnery.
- Rothbard, M. N. 1980. F. A. Hayek and the Concept of Coercion. *ORDO*. 31: 43-50.
- Sally, R. 1998. *Classical Liberalism and International Economic Order*. London: Routledge.
- Schumacher, E. F. 1973. *Small Is Beautiful: Economics as if People Mattered*. New York: Harper & Row.
- Smith, A. [1759] 1976. *The Theory of Moral Sentiments*. Oxford: Oxford University Press.
- _____. [1776] 1976. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Chicago: University of Chicago Press.
- Solchany, J. 2015. *Wilhelm Röpke, l'autre Hayek. Aux origines du néolibéralisme*. Paris: Publications de la Sorbonne.
- Tönnies, F. 1887. *Gemeinschaft und Gesellschaft. Abhandlung des Communismus und des Socialismus als empirischer Culturformen*. Leipzig: Fues's Verlag (R. Reisland).
- Viner, J. 1961. Hayek on Freedom and Coercion. *Southern Economic Journal*. 27 (3): 230-236.

Epistemic institutionalism: Rules and Order, Complexity, and Liberalism

PAUL LEWIS

King's College London
 Email: paul.lewis@kcl.ac.uk
 Web: <https://www.kcl.ac.uk/people/professor-paul-lewis>

INTRODUCTION: EPISTEMIC INSTITUTIONALISM¹

The temptation when reviewing a book is to talk about the one you, the reviewer, would have written, but which the person who actually wrote the book under consideration was not wise enough to write themselves. I am going to try to avoid that failing by engaging in an immanent critique of Boettke's *F. A. Hayek*, considering it on its own terms and seeing how well it succeeds in fulfilling the goals set by its author.² So, what is Boettke's goal? The book, we are told, is "not a proper intellectual history. (pp. xii, xiii). Rather, it "is the story of the evolution of a perspective of economic, political economic, and social philosophic thought about how the world works." The ultimate objective is to highlight the evolutionary potential of Hayek's ideas, by which is meant "what his ideas still have to say to us in our context and in our debates" (p. xiv).

Boettke's principal claim is that there is a common thread running through Hayek's work in economics and political philosophy. This is a commitment to "*epistemic institutionalism*", which is the term Boettke uses to refer to the way in which different institutional arrangements have different capacities to generate the knowledge and the feedback people need to coordinate their plans and thereby make good use of the resources at their disposal (pp. xiii-xiv). This emphasis on the epistemic properties of institutions is the key analytical focus of the book. It is central to Boettke's account of the development of Hayek's ideas and to his claims about their evolutionary potential. Boettke uses it to guide and shape his account of Hayek's work as encompassing three main stages (pp. xvi-xvii).

- In stage one, which Boettke entitles 'Economics as a Coordination Problem' and which in his telling lasts from about 1920 until the mid-1940s, Hayek focuses on the

problem of plan coordination (including, in Hayek's theory of the trade cycle, intertemporal coordination) (chapters 3-5 or pp. 37-139).

- The second stage of Hayek's intellectual journey centres on his "Abuse of Reason Project", which in Boettke's view covers the period from 1940 until 1960. In those years Hayek reflected upon why all too many of his fellow economists adopted formal analytical methods that obscured the fundamental economic problem faced by society and (therefore) the role of institutions in solving it. In particular, as Boettke makes clear in some of the best sections of the book, in the 1940s and 1950s Hayek considers how in their efforts to imitate the trappings of the natural sciences, neoclassical economists increasingly concentrated their analysis on equilibrium states. But in a world of equilibrium, institutions are largely redundant, since the problems of coordinating people's plans—to which they contribute—has already been solved. Neoclassical economics' focus on equilibria, and the demands of constructing formal models, therefore led to institutions first of all fading into background of the analysis, as a recognised but largely unstated background condition, and then to their being ignored together (pp. 141-95 or chapters 6-7; also see pp. 113-14, 229-32).³
- Finally, in Stage 3 of his work, which covers the years between 1960 and 1980, Hayek draws out the implications of epistemic institutionalism for political philosophy, in what Boettke refers to in chapters 8-10 of the book as Hayek's "Restatement of the Liberal Principles of Justice" (pp. 179-281).⁴

As already noted, Boettke's account is not merely an historical one. He also contends that Hayek's work can inform contemporary work in economics and political philosophy,

seeking to show how the notion of epistemic institutionalism can be used to cross-fertilise ideas from other traditions—perhaps most notably those of the Bloomington and Virginia Schools—in order to develop new, fruitful lines of inquiry.

There are many interesting and attractive features of Boettke's approach. His overall account of epistemic institutionalism as *the* Hayekian research programme is compelling; his discussion of rule of law as a bulwark against intervention (pp. 211-23) is insightful; his excoriating critique of what he refers to as 'litmus test' libertarianism (pp. 265-69), which "celebrates not the liberal virtues but the right of the individual to be closed, to reject, and to be intolerant" (p. 267), is powerful and timely, as are his criticisms of populism (pp. 269-72); and his invitation to inquiry about twenty-first century cosmopolitan liberalism is appealing (pp. 272-77).

In what follows, I explore various ways in which some of Boettke's arguments could be strengthened, the better to achieve his goals. There are three such areas. The first is Boettke's account of Hayek's epistemic institutionalism, which I shall argue does not bring out as clearly as it might the way that Hayek's fullest explanation of how plan coordination is possible in decentralised market economies is to be found only in his later, post-1960 work on political and legal philosophy (Section 2). Second, I shall argue that Boettke pays too little attention to Hayek's complexity theory, both in his account of Hayek's Abuse of Reason project but also, and more importantly, in his exposition of Hayek's epistemic institutionalism. The upshot is that Boettke's book largely ignores material from which a good deal of the evolutionary potential of Hayek's ideas derives (Section 3). Third, in section 4, I consider Boettke's account of the causes of Hayek's institutional term from the 1930s onwards. Boettke is of course correct to identify market socialism and Keynesian economics in important causes of Hayek's increasing emphasis on the institutional framework within which economic activity takes place. However, Boettke could, and should, have said more about another important contributory factor, namely discussions within liberal circles in the 1930s and 1940s—in which Hayek was an important participant—about how, in order to revive the fortunes of liberalism, its supporters needed to think much more about the positive role of the state in shaping the legal framework required to sustain a spontaneous market order. Doing so would also have helped Boettke to achieve another of his goals, namely dispelling some of the cruder stereotypes about the early days of the Mont Pelerin Society. Sec-

tion 5 identifies some other interesting potential points of discussion and concludes the review.

BOETTKE'S INTERPRETIVE STRATEGY, EPISTEMIC INSTITUTIONALISM AND HAYEK'S IMPLICIT ECONOMICS

My first point concerns Boettke's interpretive strategy. Boettke describes it as follows:

[T]he most productive reading of Hayek is one which sees the common thread in his work from psychology to economics to the philosophy of science to political philosophy to law and finally to philosophical anthropology and social theory. The common thread is [the] decisive epistemic turn to comparative institutional analysis. (p. 25)

On this view, Hayek "was always working as a technical economist concerned with the problem of economic coordination through time, and he was always a political economist who cared about the institutional infrastructure within which economic activity took place" (p. xvii).

This approach, according to which Hayek's "version of institutional economics must be read back in an explicit way into his earlier writings" (p. xix), certainly brings advantages, not the least of which is that it enables Boettke to identify a strong narrative thread—centring on the notion of 'epistemic institutionalism'—that runs through his account of Hayek's intellectual career. And Boettke deploys that narrative to good effect, using it to undermine some common fallacies about Hayek's work, such as the view that Hayek's work provided no more than intuitions about the working of the market could, and indeed had to be, formalised in order to realise their full potential (pp. 79-80, 106-08),⁵ and also to clarify Hayek's key argument against socialism, namely that the knowledge for central planning is institutionally contingent and cannot be utilised by planners even in principle, simply because it does not exist absent the rivalrous process of market competition (pp. 12, 23-24 104, 132-33).⁶

But this interpretive strategy also comes at a price, because by placing so much emphasis on epistemic institutionalism as the common thread of Hayek's thought, it tends to 'flatten out' his intellectual trajectory more than is perhaps warranted. What I mean by 'flattening out' is that it makes it harder than it might otherwise be to acknowledge

the extent to which Hayek's understanding of the role of institutions in facilitating social order displayed an upward trajectory, developing and yielding new insights over time.

To illustrate this point, I want to consider one of the misconceptions about Hayek that Boettke seeks to dispel, namely that "Hayek effectively abandoned economics after the publication of *The Pure Theory of Capital* ... [in 1941] and retreated to political theory, legal theory and public intellectual work" (p. 4). I should say at the outset that I completely agree with Boettke's interpretation. My concern lies more with the way that his interpretive strategy makes it harder than it might otherwise be for him to make it clear to his readers precisely how, and to what effect, Hayek continued to do economics in the 1950s, 1960s and 1970s. My point, in a nutshell, is that it is only in his post-1960 writings—that are ostensibly about political and legal philosophy—that Hayek actually solves the challenge, which he had first posed in "Economic and Knowledge" in 1937, of explaining how order is possible in modern industrial economies characterised by elaborate divisions of labour and knowledge. Of course, and most famously, Hayek advanced his first major account of the causal processes through which knowledge is discovered and transmitted, and plans coordinated, in his essay on 'The Use of Knowledge in Society' ([1945] 2014). Through his famous tin example, as we all know, Hayek argues that when individuals act on the basis of their local knowledge, they generate changes in relative prices which indicate the consequences of their actions for the scarcity of various goods and thus convey to others hints about the local knowledge which informs their actions, thereby enabling people successfully to coordinate their actions with one another.

However, as Steve Fleetwood (1995) and one of the scholars to whom Boettke's book is dedicated, namely Karen Vaughn (1999), have argued, it was only later, in his post-1960 work on social theory and political philosophy, that Hayek developed a fully-fledged, and convincing, theory of how social order is possible in decentralised market economies. In those later writings, Hayek argues that the dissemination of knowledge required for plan coordination is facilitated not only by price signals but also by a system of formal and informal social rules (such as the laws of property, tort and contract, and norms of honesty and promise-keeping respectively). For Hayek, those rules are repositories of practical social knowledge, embodying inherited wisdom concerning how people should interpret and respond to various kinds of situation. By facilitating enforceable contracts, those rules help to reassure people that the

contributions they need others to make if their own plans are to come to fruition will actually be forthcoming. The rules can thus be seen to be an important source of the knowledge that—in conjunction with the knowledge provided by relative price signals—helps people to form reliable expectations of each other's future conduct, enabling them to adjust their plans to one another. As Hayek writes in *The Mirage of Social Justice*,

What reconciles the individuals and knits them into a common and enduring pattern of a society is that ... they respond in accordance with the same abstract rules ... What ... enables them to live and work together in peace is that in the pursuit of their individual ends the particular monetary impulses which impel their efforts ... are guided and restrained by the same abstract rules. If emotion or impulse tells them what they want, the conventional rules tell them how they will be able and be allowed to achieve it. (Hayek 1976: 12; also see [1967] 1978: 85.)

For the later Hayek, then, social rules are just as important a source of the knowledge required for plan coordination as relative prices. While there are gestures towards this argument in some of Hayek's writings in 1940s,⁷ he made the point most fully in his later, post-1960 writings on political philosophy and the law, where what is arguably his most complete account of the possibility of social order in decentralised market economies can be found.⁸

Hayek recognised this point himself, writing in "Kinds of Rationalism"—in a passage cited by Boettke (p. 5), but whose full significance is not I think made clear in the rest of Boettke's book—that while he had developed key insights into the issue of plan coordination in his 1937 and 1945 papers, "it was still a long way from this to an adequate insight into the relations between the abstract rules which the individual follows in his actions, and the abstract overall order which is formed as a result of his responding, within the limits imposed upon him by those abstract rules, to the concrete particular circumstances which he encounters":

It was only through a re-examination of the age-old concept of freedom under the law, the basic conception of traditional liberalism, and of the problems of the philosophy of the law which this raises, that I have reached what now seems to me a tolerably clear picture of the nature of the spontaneous order of which liberal economists have so long been talking. (Hayek [1965] 2014: 50.)

What Hayek is saying here, I submit, is that it is only in his later, post-1960 work that he provides a full account of how the market system solves the key economic problem of coordinating people's plans in the face of dispersed knowledge, theorising explicitly the epistemic function served by social rules and integrating it into his account of the informational role of relative price signals. Those later writings can thus be seen to contain what Karen Vaughn has felicitously referred to as "Hayek's Implicit Economics."⁹

Boettke mentions Hayek's 'implicit economics' (p. 5) but he does not, I think, make clearly enough the point made by Fleetwood and Vaughn that, far from simply drawing out the implications for political and legal philosophy of an already complete economic analysis of social order, Hayek's post-1960s work sees him refine and develop significantly his account of plan coordination, even writing that "price signals represent the institutional guidepost for learning within the market process" (which comes close to conflating the informational role of prices and social rules) (p. 132).¹⁰ What this suggests is that Boettke could have pursued his goal of dispelling the myth that Hayek gave up on economics in the 1940s more effectively by pointing out that Hayek did not merely continue to apply the analysis of plan coordination he had already developed but rather continued to refine and improve it in the 1960s and thereafter.¹¹

THE COMPLEXITY OF HAYEK'S METHODOLOGY: THE ABUSE OF REASON PROJECT AND BEYOND

The second stage of Hayek's intellectual journey demarcated by Boettke centres on his "Abuse of Reason Project." In Boettke's view, this covers the period from 1940 until 1960 and saw Hayek striving to uncover and criticise the "philosophical and methodological underpinnings of modern social science" (p. 25). In doing so, Hayek would explore the origins and expose the shortcomings of ideas that he believed had led to a failure to appreciate the importance of spontaneously grown social orders and to an unjustified faith in man's capacity to plan society (pp. 27, 33, 285-86).¹²

A major contribution to this endeavour was the publication of Hayek's essays on "Scientism and the Study of Society."¹³ In those works, Hayek advances a critique of scientism—defined as the "slavish imitation of the method or language of science" ([1942-44] 2010: 80)—as well as giving an account of how he thinks the study of the social world ought to proceed. Put succinctly, Hayek's conclusion is that the methods appropriate for the study of the natural and

social worlds are quite distinct. While a truly scientific approach would recognise the differences between the natural and social worlds, in particular those stemming from the subjective character of human action, and acknowledge that they called for different methods of investigation, those who fell under the spell of scientism failed to do so and consequently adopted an approach that led them to ignore key aspects of the social world. In particular, according to Hayek, their chosen methods left them unable to recognise the importance of spontaneously-arising social orders and with an unjustified faith in people's capacity consciously to design institutions and plan outcomes (Hayek [1942-44] 2010: 142-55).

However, what Boettke does not mention is that Hayek's views underwent a significant change in the 1950s, when he ceased to draw a sharp division between the natural and the social sciences, distinguishing instead between sciences that study simple systems and those which study complex systems.¹⁴ That a significant omission on Boettke's part—one that is of more than purely historical interest—because it ultimately has consequences for the very issue that upon his account lies at the heart of Hayek's work, namely epistemic institutionalism. To see why, it is necessary first to explain what Hayek means by the notion of a 'complex system'.¹⁵ For Hayek, complex systems have two defining characteristics. One is that they display emergent properties; the system as a whole possesses properties that are not possessed by any of its individual component parts ([1964] 2014: 262; [1975] 2014: 365). The other is that in complex systems the "the number of significantly interdependent variables is very large and only some of them can in practice be individually observed" (Hayek, [1955] 2014: 200). These attributes are important, in Hayek's view, because—as we shall see—they imply that there are limits to the extent to which social scientists are able to explain and predict the behaviour of complex systems.

These ideas are significant for our present purposes because the notion that society is a complex system informs and shapes Hayek's efforts in the 1960s and thereafter to conceptualise the very issue that—in Boettke's estimation—stands at the heart of Hayek's 'epistemic institutionalism', namely the relationship between social rules and the possibility of plan coordination and social order. For what Hayek ultimately comes to argue is that the capacity to coordinate people's plans—the "order of actions", as Hayek terms it¹⁶—is best conceptualised as an emergent property of the entire system of rules $\{r_1, r_2, \dots, r_n\}$ that governs people's activities (rather than being the product of any one of those rules or

the mere *sum* of their separate effects taken in isolation).¹⁷ Put slightly differently, there is an intricate rule *structure*, with certain rules complementing each other in the sense that, taken together, they sustain emergent properties not possessed by any of them alone (Hayek [1967] 2014: 280, 283 and Hayek 1973: 59-61 105-122-23). For Hayek, therefore, the overall order of actions is neither equivalent to the underlying set of rules, nor can it be readily predicted as the simple resultant of them; rather it is an emergent property that supervenes on the system of rules in question (Gaus 2006; Lewis 2015 Gaus 2018).¹⁸

The fact that Hayek increasingly comes to view his epistemic institutionalism—his account of the relationship between rules and order—through the lens provided by his theory of complex systems is important because it suggests there are limits to the extent to which social scientists can predict and explain the behaviour of such systems. In particular, while it is possible to give an account of the causal mechanisms through which complex social phenomena such as the market order are produced, such explanations and predictions will be limited to the general features of those outcomes, not their details. For instance, while social theory can explain some of the key abstract or *qualitative* features of the market order, most notably the coordination of people’s plans that is its defining characteristic, it can neither explain nor predict the concrete details of the distribution of the rewards earned by different people (because those features of the system will depend upon some of the many variables that are inaccessible to the analyst, such as the local knowledge of, and particular judgements made by, myriad individuals).¹⁹ Such ‘explanations of the principle’, as Hayek terms these accounts of the causal process through which people’s (inter)actions lead to certain kinds of outcome, can also help us to make general or (as Hayek terms them) *pattern* predictions, such as that an increase in the demand for a good will lead to a rise in its price or that the absence of the institutions of a liberal polity is incompatible with social order; but they do not facilitate reliable *quantitative* predictions of the precise magnitude of that price rise (Hayek: [1955] 2014: 202-09; [1964] 2014: 260-71).²⁰

These ideas are relevant for Boettke’s project for at least two reasons. First, they can help to head off a line of criticism that is often levelled at Hayek and to which Boettke alludes towards the end of his book. The charge is that there is a tension in Hayek’s thought, arising from the way that he argues both (i) that it is impossible for us to know enough about the social world successfully to implement certain policies and achieve certain goals, such as widespread plan-

ning and a particular distribution of income respectively, whilst at the same time he also contends (ii) that we can know enough about the world not only to rule out such policies and goals but also to engage in the reform of existing institutions (as perhaps most strikingly seen in the plan for a model constitution set out in volume 3 of *Law, Legislation and Liberty*). This line of criticism is implicit in Michael Oakeshott’s barbed remark that Hayek devises “a plan to resist all planning” (1991: 26) and is made explicitly by other critics, such as Geoff Hodgson, who argue that by appealing to reason to limit the scope of rationalist thought, “Hayek has placed himself in a contradictory position” (1993: 183). Of course, Hayek has done nothing of the sort, and one can appeal to ideas from Hayek’s work on complexity to see why. In a nutshell, Hayek is arguing that we can use our powers of reasoning to understand the operation of the causal mechanisms governing the production of social order in modern industrial economies. On the basis of such explanations of the principle, we can then go on—if only fallibly, of course—both to rule out as infeasible goals whose achievement is inconsistent with the smooth working of the causal mechanisms that sustain the extended order and also to suggest reforms that will enable us to instantiate the principles of a liberal social order more effectively in our institutions. In short, Hayek’s theory of complex systems affords us a set of epistemological categories that can help us to rebut the charge of inconsistency against which Boettke is rightly trying to defend Hayek.

Hayek’s work on complex systems is also important for a second reason. This is the contribution it makes to something by which Boettke sets great store, namely the scope for Hayek’s work to contribute to future research. Boettke wants to portray Hayek as the author of “a progressive research programme in the social sciences” (p. xix), which I take to mean that he wants to argue that, far from being merely of historical interest, Hayek’s ideas can fruitfully inform contemporary work in social science and political philosophy.²¹ That is, of course, a goal I wholeheartedly endorse. My point is simply this. If one looks at the way in which Hayek’s ideas have been appropriated by interesting and influential social scientists and political philosophers in recent years, it has often—not always, of course, but often—been his work on society as a complex system that people have used. A recent article in *The Economist* lauded complexity economics as an interesting and important approach, mentioning Hayek as one of its early exponents.²² Consider also the following (incomplete and idiosyncratic)

list of interesting and important work in economics and political philosophy:

- Jerry Gaus’s work on complex economic and moral system (Gaus 2018, 2019).
- David Colander and Roland Kuper’s work on ‘laissez-faire interventionism’ (Colander and Kupers 2014).
- Rob Axtell’s work on complex economic systems (Axtell 2016).
- Dick Wagner’s efforts to develop a system-theoretic approach to macroeconomics (Wagner 2012; Lewis and Wagner 2017).
- David Harper’s work on capital as a complex system (Harper 2014; Harper and Endres 2018).
- Roger Koppl’s work on complexity and computability (e.g. Koppl 2010).

Let me be clear what I am claiming in drawing attention to such research. I am not suggesting that Hayek’s work on complexity is the most important element of his work, or the one with the greatest evolutionary potential. There are many candidates for such accolades and I doubt that Hayek’s work on complexity would come top of everyone’s list of candidates for such awards. But I submit that it *is* important enough to warrant more attention that Boettke gives it. If you really aim to convince readers that they can “find insight and inspiration on how to think seriously about fundamental issues in economic science, political economy, and social philosophy” (p. xix), then you need to pay significant attention to Hayek’s work on complexity theory. In failing to give a proper account of Hayek’s work on complex systems, Boettke does not pursue as effectively as he might have done of his goal of highlighting the “evolutionary potential” (pp. 214, 252) of Hayek’s work on the epistemic properties of different institutional arrangements for contemporary political economy.²³

HAYEK’S INSTITUTIONAL TURN AND DEBATES OVER THE FUTURE OF LIBERALISM

When Boettke is explaining the ‘institutional turn’ in Hayek’s thought after the 1930s, he focuses—understandably enough—on the critiques offered by Keynes and by the

advocates of market socialism (e.g. pp. 135-37, 166-67, 229-30, 285). But in doing so he largely ignores—and, to the extent that he mentions it at all, gives an incomplete account of—another debate over liberalism that was taking place in the 1930s and 1940s, in which Hayek also played a central role. This is the debate *within liberal circles* in the 1930s and 1940s over the nature, and the future, of liberalism. Of course, this debate was a response to the rise of collectivism, to which the Keynesian and market socialist ideas highlighted by Boettke had contributed (along with the work of the Fabian socialists and so-called New Liberals).²⁴

In Hayek’s opinion, however, there were other reasons for the decline of liberalism, some of which reflected how liberalism had come to be articulated by its defenders in the nineteenth century. For Hayek—and for others, such as Walter Lippmann, Walter Eucken and Henry Simons—one of the principal reasons why liberalism had lost ground to collectivism was that it had become too readily identified by defenders and critics alike as an essentially ‘negative’ doctrine, concerned principally with highlighting the shortcomings of government activity rather than identifying the positive role that state action could play. Consider, for example, the following passage from Hayek’s *Road to Serfdom*, which is quoted by Boettke:

It is regrettable, though not difficult to explain, that in the past much less attention has been given to the positive requirements of a successful working of the competitive system than to these negative requirements. The functioning of competition not only requires adequate organisation of certain institutions like money, markets, and channels of information – some of which can never be adequately provided by private enterprise – but it depends, above all, on the existence of an appropriate legal system, a legal system designed both to preserve competition and to make it work on beneficially as possible ... The systematic study of the forms of legal institutions which will work the competitive system work efficiently has been sadly neglected (Hayek [1944] 2007: 87; quoted in Boettke, p. 162)

Boettke quotes this passage in support of his claim that the neoclassical economists had neglected institutional analysis (pp. 161-62). But it is clear that in the section of *The Road to Serfdom* in which this passage is found, Hayek is concerned at least as much with criticising the attitude of some liberals, who he believed had reduced liberalism to a

negative doctrine centring on a presumption against government intervention (including a presumption that there was no role for government in reforming the legal framework itself):

It is important not to confuse opposition against ... [central] planning with a dogmatic *laissez-faire* attitude. The liberal argument is in favour of making the best possible use of the forces of competition as a means of coordinating human efforts, not an argument for leaving things just as they are ... [I]n order that competition work effectively, a carefully thought out legal framework is required and ... neither the existing nor the past legal rules are free from grave defects. (Hayek [1944] 2007: 85-86.)

The problem for liberalism, however, was that some of its advocates had neglected its positive aspect—the way that it allowed an active role for the state in “creating a system within which competition will work as beneficially as possible”—in favour of “passively accepting [existing] institutions as they are” (Hayek [1944] 2007: 71). “Probably nothing has done so much harm to the liberal cause,” Hayek contends, “as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of *laissez faire*.”²⁵

In attempting to explain why Hayek made his institutional turn, therefore, it is important not just to consider his efforts to respond to neoclassical and Keynesian economics, but also to explore how Hayek came to believe that the revival of liberalism required its supporters to think much more about the positive role of the state in shaping the legal framework so that it was conducive to the emergence of a spontaneous market order. This was, of course, a key theme in the first meeting of the Mont Pelerin Society in 1947, where in his lecture on “Free Enterprise and Competitive Order” Hayek argued “the most fatal tactical mistake” of nineteenth century liberals was to have portrayed the fundamental liberalism as preaching the “absence of state activity rather than as a policy which deliberately adopts competition, the market, and prices as its ordering principle and uses the legal framework enforced by the state in order to make competition as effective and beneficial as possible” (Hayek [1947] 1948: 109, 110). For Hayek, as for the *ordo-liberals* and old Chicago school economists like Henry Simons, it was necessary for liberals to depart from the view that freedom of contract was sacrosanct, since some freely made contracts could reduce competition, and also to con-

sider how to reform corporate law, the law of patents, and labour law, all of which he believed had fostered monopoly power (Hayek [1947] 1948: 115-16).²⁶

In addition to strengthening Boettke’s explanation of Hayek’s institutional turn, a discussion of Hayek’s belief in the need to reframe liberalism as a positive doctrine would also have served some of Boettke’s other purposes. One of Boettke’s goals is to rebut the charge that Hayek was categorically opposed to government action (p. 4). He also wishes to convince readers that the Mont Pelerin Society “was never a Davos for neoliberal economists ... but has always been a debate and discussion society concerned with foundational issues facing the liberal society” (p. xix), and that “MPS meetings focused on how to think about the challenges to liberalism and more importantly how to revise our understanding of true radical liberalism” (p. 258). A discussion of Hayek’s views about the shortcomings of liberalism, as it had come to be expressed in the first three decades of the twentieth century, and his belief in the need for liberals to discuss the positive aspects of liberal thought, would have enhanced Boettke’s efforts to promote both of those goals.

CONCLUSION

There are many other aspects of Boettke’s book that merit discussion: the question of in what sense, if any, it is helpful to describe Hayek as adhering to ‘methodological individualism’ when his work is also characterised by “a bidirectionality between purposive human action and institutions; between agency and structure” (p. 192; also see pp. 4, 186-90);²⁷ the decision largely to ignore the fourth stage of Hayek’s thought, on “Philosophical Anthropology and the Study of Man (pp. xvii-xviii);²⁸ the portrayal of Keynes as someone in whose work “economic actors are prone to speculative behaviour (read irrational)” (p. 43);²⁹ and the significance of Boettke’s decision, when considering the evolutionary potential of Hayek’s thought, largely to pair it with ideas drawn from scholars who are committed advocates of the market—such as Coase, Buchanan, and Friedman—rather than with the work of thinkers more willing to countenance government intervention.³⁰ Hopefully some of the other contributions to this symposium will examine these themes. But for the moment it suffices to note that this thought-provoking book will undoubtedly stimulate debate about the work of a thinker whose ideas will remain fertile well into the future.

NOTES

- 1 I am grateful for advice and encouragement from Bill Butos, Ted Burczak, Malte Dold, Lenore Ealy, Nathan Goodman, Shaun Hargreaves Heap, David Harper, Roger Koppl, John Meadowcroft, Mikayla Novak, Jochen Runde and Virgil Storr, none of whom should be held responsible for any errors in what follows.
- 2 All otherwise unattributed page references are to P. Boettke (2018).
- 3 As Boettke puts it, if the analytical focus is on equilibrium states, where people's plans are already aligned, then "many institutions are essentially redundant, pointless, or otherwise relegated to much more limited roles than our everyday experience of economic reality would ever suggest" (p. 113).
- 4 Boettke identifies but then largely ignores a fourth stage of Hayek's work, which he labels "Philosophical Anthropology and the Study of Man" (pp. xvii-xviii).
- 5 This point is a long-standing feature of Boettke's work, which has seen him long argue that the verbal (or appreciative) mode of theorising adopted by Hayek is not merely, as orthodox economists suppose, a vague, intuitive and unrigorous precursor to formal modelling but is rather a mode of analysis that is able to capture and do justice to insights to which formal theorising is blind (also see pp. 105-11; also see Boettke 1996, 1997, and Beaulier and Boettke 2004; also see Lewis 2005: 84-88). In elaborating on this point here, Boettke deploys Nelson and Winter's (1982) distinction between formal and appreciative theorising to good effect (pp. 79-111). For more on that distinction, and an argument complementary to Boettke's claim that appreciative theory yields genuine insights denied to those who rely on formal theory alone, see Northover (1999).
- 6 For a recent elaboration and development of this point, see Lourenço and Graça Moura (2018).
- 7 See, Hayek, *The Road to Serfdom*, p. 113 and Hayek, "The Use of Knowledge in Society", pp. 101-02.
- 8 This is one way of making sense of Boettke's otherwise rather cryptic remark that Hayek's 'institutional turn' starts with the publication of "Economics and Knowledge" in 1937 but "gains[s] in momentum in the 1940s and 1950s" (p. 153). It does so at least in part because, over time, Hayek articulates more clearly how social rules contribute to the solution of the problem of plan coordination.
- 9 See, for example, Hayek (1976: 107-32). Also see Vaughn (1999) and Lewis (2013, 2014). For different but closely related points on Hayek's continued efforts in the field of economics in the 1950s and 1960s, see Caldwell (2016).
- 10 For instance, Boettke writes on p. xviii of his book that, "It is important for my narrative to understand that ... [f]rom 1920 to 1980, [Hayek's] work consistently and persistently is grounded in his 'Austrian' understanding of the coordination of economic activity through time.' That is true; but it leaves unsaid the important point that Hayek's understanding of order develops over time, along the times I've suggested. Similarly, in a recent 'Liberty Matters' discussion of his book, Boettke writes that, "Hayek's *epistemic institutionalism, as articulated in the 1930s and 1940s*, provided the foundation for his own reconstruction and restatement of liberal political economy as evidenced in *The Constitution of Liberty and Law, Legislation and Liberty*" (see <https://oll.libertyfund.org/pages/lm-hayek>; emphasis added). Readers could be forgiven for taking that to mean that Hayek developed a complete theory of coordination in the 1930s and 1940s and then without developing further it simply drew out its implications for liberalism in the 1960s and 1970s. Readers might also be led astray by claims, such as that found on p. 93 of the book, that "Hayek himself had basically left technical economics by mid-century." It is also noteworthy that, when he does discuss sources of information other than relative price signals that contribute to plan coordination, Boettke often refers only to people's local awareness of things such as the availability of other goods and their knowledge of how they can be obtained, (pp. 84-86, 105-06), only briefly mentioning the role of social rules in helping people to predict one another's future conduct towards the end of the book and then without explaining how those rules complement and work hand-in-glove with the informational role of prices (p. 191).
- 11 It is indeed the case, as Boettke writes on pp. 4-5 of his book, that "Hayek's ideas went through critical refinement throughout his long career." And that was as true of his understanding of epistemic institutionalism as of any other aspect of his thought.
- 12 For a more detailed account, see Caldwell (2004: 232-60).
- 13 The scientism essays were first published in *Economica* between 1942 and 1944. Now see Hayek ([1942-44] 2010).
- 14 See Hayek ([1955] 2014 and [1964] 2014). Several influences arguably contributed to the shift in Hayek's views, including criticisms of his account of the natural sciences by philosophers Ernest Nagel and Karl Popper and a referee's report on 'Degrees of Explanation' written by mathematician Warren Weaver. For details, see Caldwell (2014: 14-16).
- 15 For fuller accounts, Gaus (2006), Lewis (2013: 395-98, 2015) and Lewis and Lewin (2015).

- 16 Hayek [1967] 2014: 278-80 and Hayek 1978: 135-36, 139.
- 17 The functioning and causal impact of any one rule depends on the other rules in the system of which it is a part so that, as Hayek puts it, “any given rules of individual conduct may prove beneficial as part of one set of such rules, or in one set of external circumstances” (Hayek [1967] 2014: 280).
- 18 Similar views are expressed by another of Boettke’s intellectual touchstones, namely Elinor Ostrom, according to whom “rules combine in a configurational or interactive manner” in the sense that “the way one rules operates is affected by other rules” (Ostrom [1986] 2014: 108, 100). For more on the parallels between Hayek and Ostrom on this issue, see Lewis (2017).
- 19 See, for example, Hayek [1967] 1978: 75, 1967: 70-73.
- 20 It is not only social scientists, but also laypeople who can be thought of as navigating a complex social world by making pattern predictions, based on their knowledge of the social rules that govern their activities (Lewis and Lewin 2015: section 7; Boettke p. 84).
- 21 For more on Boettke’s views on how the study of older works in economics can inform contemporary research, see Boettke (2000, 2002).
- 22 *The Economist* (2019).
- 23 The obvious response to this line of criticism, namely that considerations of space precluded a proper discussion of Hayek’s ideas about complexity, does not, I think, suffice in this case; especially given the fact that significant portions of the book are devoted to thinkers other than Hayek, it is not hard to see how, with a little judicious editing, room could have been made in the book for an outline of this aspect of Hayek’s work.
- 24 Hayek (1978: 130-32) provides an account of the decline of liberal ideas in the early twentieth century.
- 25 Hayek had made similar points on several occasions in the 1930s, including in his inaugural lecture at the LSE. where he argued that nineteenth century liberals had “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” (Hayek [1933] 1991: 31; also see Hayek [1939] 1997: 194-96).
- 26 A notable dissenting voice belonged to Ludwig von Mises. In contrast to Hayek, Simons, and the ordo-liberals, Mises regarded freedom of contract as sacrosanct. He therefore advocated a ‘night watchman’ state whose activities would be confined to the provision of national defence and the enforcement of any and all voluntarily-agreed contracts. Underlying this divergence of opinion was Hayek et al.’s view that free market contracting could give rise to monopolies, endogenously as it were, whereas Mises believed that monopoly power arose only exogenously, as a result of misguided government policies that limited competition. Consistent with this continued commitment to nineteenth century *laissez faire*, Mises also wished to retain the word ‘liberalism’ unmodified in any way (whereas those who believed that reviving liberalism required it to be differentiated from nineteenth century *laissez-faire* also strove to find a new name for it). Indeed, it is in recognition of such differences with the classical liberalism of Mises that Hayek later described the ordo-liberals as adopting “a restrained liberalism” and as a “neo-liberal” movement or group (Hayek [1983] 1992: 189 and Hayek 1978: 146).
- 27 For more on this issue, see for example Hodgson (1991, 2007) and Lewis (2014: 218-19, 2020: section 4).
- 28 This decision means that Boettke’s book does not consider another important source of contemporary interest in Hayek’s ideas, centring on recent work examining how group selection processes of the kind postulated by Hayek shape people’s preferences and dispositions (in particular so as to give rise to so-called ‘pro-social’ preferences or a disposition for other-regarding, rather than purely self-interested, behaviour). See, for example, Wilson (2004), Wilson et al. (2013), and Gintis and Bowles (2014).
- 29 For different readings, all of which suggest that Keynes’s analysis of investment was based on a concept of rational behaviour, albeit one that differs significantly from the expected utility-maximisation presupposed by orthodox economics, see Lawson (1985, 1991), Runde (1991) and Meeks (2003).
- 30 See for example Hodgson (1999, 2016), Burczak (2006), Colander and Kupers (2014), Wilson (2015), Wilson and Gowdy (2015), and Bowles et al. (2017).

REFERENCES

- Axtell, R. 2016. Hayek Enriched by Complexity Enriched by Hayek. *Advances in Austrian Economics*. 21: 63-121.
- Beaulier, S. and Boettke, P. J. 2004. The Really Real in Economics. In: Lewis, P. (ed.) *Transforming Economics: Perspectives on the Critical Realist Project*. New York: Routledge, pp. 187-201.
- Boettke, P. J. 1996. What is Wrong with Neoclassical Economics (and What is Still Wrong with Austrian Economics)? In: Foldvary, F. E. (ed.) *Beyond Neoclassical Economics: Heterodox Approaches to Economic Theory*. Cheltenham: Edward Elgar, pp. 22-40.
- . 1997. Where did Economics Go Wrong? Modern Economics as a Flight from Reality. *Critical Review*. 11 (1): 11-64.
- . 2000. Why Read the Classics in Economics? <https://www.econlib.org/library/Features/feature2.html> (Accessed 2 April 2019).
- . 2002. The Use and Abuse of History of Economic Thought: The Case of the Austrian School of Economics. *History of Political Economy*. 34 (5): 337-360.
- . 2018. *F. A. Hayek: Economics, Political Economy and Social Philosophy*. Basingstoke: Palgrave Macmillan.
- Bowles, S., Kirman, A. and R. Sethi, R. 2017. Friedrich Hayek and the Market Algorithm. *Journal of Economic Perspectives*. 31 (3): 215-30.
- Burczak, T. 2006. *Socialism after Hayek*. Ann Arbor: University of Michigan Press.
- Caldwell, B. 2004. *Hayek's Challenge: An Intellectual Biography of F. A. Hayek*. Chicago: University of Chicago Press.
- . 2014. Introduction. In: Caldwell, B. (ed.) *The Collected Works of F.A. Hayek, Volume 15: The Market and other Orders*. Chicago: University of Chicago Press, pp. 1-35.
- . 2016. F. A. Hayek and the Economic Calculus. *History of Political Economy*. 48 (1): 151-180.
- Colander, D. and Kupers, R. 2014. *Complexity and the Art of Public Policy: Solving Society's Problems from the Bottom Up*. Princeton: Princeton University Press.
- Fleetwood, S. 1995. *Hayek's Political Economy: The Socio-Economics of Order*. London: Routledge.
- Gamble, A. 2013. Hayek and Liberty. *Critical Review*. 25 (3-4): 342-63.
- Gaus, G. 2006. Hayek on the Evolution of Society and Mind. In: Feser, E. (ed.) *The Cambridge Companion to Hayek*. Cambridge: Cambridge University Press, pp. 232-258.
2018. Hayek, Complexity and 'Classical' Liberalism. In: Brennan, J., van der Vossen, B. and Schmidtz, D. (eds.) *The Routledge Handbook of Libertarianism*. New York: Routledge, pp. 34-52.
2019. Morality as a Complex, Adaptive System: Rethinking Hayek's Social Ethics. In: White, M. (ed.) *The Oxford Handbook of Ethics and Economics*. Oxford: Oxford University Press, pp. 138-159.
- Gintis, H. and Bowles, S. 2014. The Evolution of Human Cooperation. In: Garnett, R., Lewis, P. and Ealy, L. (eds.) *Commerce and Community: Human Flourishing through Voluntary Action*. New York: Routledge, pp. 13-37.
- Harper, D. 2014. Property Rights as a Complex Adaptive System. *Journal of Evolutionary Economics*. 24 (2): 335-355.
- Harper, D. and Endres, A. 2018. From Quaker Oats to Virgin Brides: Brand Capital as a Complex Adaptive System. *Journal of Institutional Economics*. 14 (6): 1071-1096.
- Hayek, F. A. [1933] 1991. The Trend of Economic Thinking. In: Bartley, W. W. III and Kresge, S. (eds.) *The Collected Works of F. A. Hayek, Vol. 3, The Trend of Economic Thinking: Essays on Political Economists and Economic History*. Chicago: University of Chicago Press, pp. 17-34.
- . [1939] 1997. Freedom and the Economic System. In: Caldwell, B. (ed.) *The Collected Works of F. A. Hayek, Vol. 10, Socialism and War: Essays, Documents, Reviews*. Chicago: University of Chicago Press, pp. 189-212.
- . [1942-44] 2010. Scientism and the Study of Society. In: Caldwell, B. (ed.) vol. 13 of *The Collected Works of F. A. Hayek, Vol. 13, Studies on the Abuse and Decline of Reason: Text and Documents*. Chicago: University of Chicago Press, pp. 75-156.
- . [1944] 2007. *The Road to Serfdom: Texts and Documents*. In: Caldwell, B. (ed.) *The Collected Works of F. A. Hayek, Vol. 2*. Chicago: University of Chicago Press.
- . [1945] 2014. The use of knowledge in society. In: Caldwell, B. (ed.) *The Collected Works of F.A. Hayek, Vol. 15, The Market and Other Orders*. Chicago: University of Chicago Press, pp. 93-104.
- . [1947] 1948. 'Free' Enterprise and Competitive Order. In: Hayek, F. A. (ed.) *Individualism and Economic Order*. Chicago: University of Chicago Press, pp. 107-118.
- . [1955] 2014. Degrees of Explanation. In: Caldwell, B. (ed.) *The Collected Works of F.A. Hayek, Vol. 15, The Market and Other Orders*. Chicago: University of Chicago Press, pp. 195-212.
- . [1964] 2014. The theory of complex phenomena. In: Caldwell, B. (ed.) *The Collected Works of F.A. Hayek, Vol. 15, The Market and Other Orders*. Chicago: University of Chicago Press, pp. 257-277.
- . [1965] 2014. Kinds of Rationalism. In: Caldwell, B. (ed.) *The Collected Works of F.A. Hayek, Vol. 15, The Market and Other Orders*. Chicago: University of Chicago Press, pp. 39-53.
- . 1967. The Confusion of Language in Political Thought. In: Hayek, F. A. (ed.) *Studies in Philosophy, Politics and Economics*. London: Routledge and Kegan Paul, pp. 71-97.
- . [1967] 2014. Notes on the Evolution of Systems of Rules of Conduct. In: Caldwell, B. (ed.) *The Collected Works of F.A. Hayek, Vol. 15, The Market and Other Orders*. Chicago: University of Chicago Press, pp. 278-292.
- . 1973. *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy, Vol. 1, Rules and Order*. London: Routledge.
- . [1975] 2014. The pretence of knowledge. In: Caldwell, B. (ed.) *The Collected Works of F.A. Hayek, Vol. 15, The Market and Other Orders*. Chicago: University of Chicago Press, pp. 362-372.
- . 1976. *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy, Vol. 2, The Mirage of Social Justice*. London: Routledge.
- . 1978. Liberalism. In: Hayek, F. A. (ed.) *New Studies in Philosophy, Politics, Economics and the History of Ideas*. London: Routledge & Kegan Paul, pp. 119-151.
- . [1983] 1992. The Rediscovery of Freedom. In Klein, P. (ed.) *The Collected Works of F.A. Hayek, Vol. 4, The Fortunes of Liberalism: Essays on Austrian Economics and the Ideal of Freedom*. Chicago: University of Chicago Press, pp. 185-200.
- Hodgson, G. 1991. Hayek's Theory of Cultural Evolution: An Evaluation in the Light of Vanberg's Critique. *Economics and Philosophy*. 7 (1): 67-82.
- . 1993. *Economics and Evolution: Bringing Life Back into Economics*. Cambridge: Polity.

- _____. 1999. *Economics and Utopia: Why the Learning Economy is not the End of History*. London: Routledge.
- _____. 2007. Meanings of Methodological Individualism. *Journal of Economic Methodology*. 14 (2): 211-26.
- _____. 2016. Some Limitations of the Socialist Calculation Debate. *Schmollers Jahrbuch*. 136 (1): 33-58.
- Koppl, R. 2010. Some Epistemological Implications of Economic Complexity. *Journal of Economic Behavior and Organisation*. 76 (3): 859-872.
- Lawson, T. 1985. Uncertainty and Economic Analysis. *Economic Journal*. 95 (380): 909-927.
- _____. 1991. Keynes's Analysis of Rational Behaviour. In: O'Donnell, R. (ed.) *Keynes as Philosopher-Economist*. Basingstoke: Macmillan, pp. 184-226.
- Lewis, P. 2005. Boettke, the Austrian School, and the Reclamation of Reality in Modern Economics. *Review of Austrian Economics*. 18 (1): 83-108.
- _____. 2013. Hayek, Social Theory, and the Contrastive Explanation of Socio-Economic Order. *Critical Review*. 25 (3-4): 386-408.
- _____. 2014. Hayek: From Economics as Equilibrium Analysis to Economics as Social Theory. In: Garrison, R. and Barry, N. (eds.) *The Elgar Companion to Hayekian Economics*. Cheltenham: Edward Elgar, pp. 195-223.
- _____. 2015. An analytical core for sociology: a complex, Hayekian analysis. *Review of Behavioral Economics*. 2 (1-2): 123-46.
- _____. 2017. The Ostroms and Hayek as Theorists of Complex Adaptive Systems: Commonality and Complementarity. *Advances in Austrian Economics*. 22: 35-66.
- _____. 2020. Tensions and Ambiguities in Hayek's Social Theory: Ontology; Methodology; Substantive Claims; and Self-Description. In: Haeffele, S. and Storr, V. H. (eds.) *Tensions in Hayek's Political Economy*. Fairfax: Mercatus Center.
- Lewis, P. and Lewin, P. 2015. Orders, Orders, Everywhere: On Hayek's *The Market and Other Orders*. *Cosmos and Taxis*. 2 (2): 1-17.
- Lewis, P. and Wagner, R. E. 2017. New Austrian Macro Theory: A Call for Inquiry. *Review of Austrian Economics*. 30 (1): 1-18.
- Lourenço, D. and Graça Moura, M. 2018. The Economic Problem of a Community: Ontological Reflections Inspired by the Socialist Calculation Debate. *Cambridge Journal of Economics*. 42 (1): 1-17.
- Meeks, G. 2003. Keynes on the Rationality of Decision Procedures Under Uncertainty. In: Runde, J. and Mizuhara, S. (eds.), *The Philosophy of Keynes's Economics: Probability, Uncertainty and Convention*. New York: Routledge, pp. 19-36.
- Nelson, R. and Winter, S. 1982. *An Evolutionary Theory of Economic Change*. Cambridge: Harvard University Press.
- Northover, P. 1999. Evolutionary Growth Theory and Forms of Realism. *Cambridge Journal of Economics*. 23 (1): 33-63.
- Oakeshott, R. 1991. *Rationalism in Politics and Other Essays*. New and Expanded Edition. Indianapolis: Liberty Fund.
- Ostrom, E. [1986] 2014. An Agenda for the Study of Institutions. In: Sabetti, F. and Aligica, P. (eds.) *Choice, Rules and Collective Action: The Ostroms on the Study of Institutions and Governance*. Colchester: ECPR Press, pp. 97-119.
- Runde, J. 1991. Keynesian uncertainty and the instability of beliefs. *Review of Political Economy*. 3 (2): 125-45.
- The Economist* 2019. Free Exchange: It's Complicated. April 6, p. 70.
- Vaughn, K. I. 1999. Hayek's Implicit Economics: Rules and the Problem of Order. *Review of Austrian Economics*. 11 (1-2): 128-44.
- Wagner, R. E. 2012. A Macro Economy as an Emergent Ecology of Plans. *Journal of Economic Behavior and Organisation*. 82 (2-3): 433-44.
- Wilson, D. 2004. The New Fable of the Bees: Multi-level Selection, Adaptive Societies, and the Concept of Self-Interest. *Advances in Austrian Economics*. 7: 201-220.
- _____. 2015. *Does Altruism Exist? Culture, Genes, and the Welfare of Others*. New Haven: Yale University Press.
- Wilson, D. and Gowdy, J. 2015. Human Ultrasociality and the Invisible Hand: Foundational Developments in Evolutionary Science alter a Foundational Concept in Economics. *Journal of Bionomics*. 17 (1): 35-52.
- Wilson, D. S., Ostrom, E., and Cox, M. 2013. Generalizing the core design principles for the efficacy of groups. *Journal of Economic Behavior and Organization*. 90 (Supplement): S21-S32.

You Can Take Hayek Out of Vienna...

ADAM MARTIN

Texas Tech University
Email: adam.martin@ttu.edu
Web: adamgmartin.com

INTRODUCTION

Peter Boettke's take on Hayek is basically right. Conservatively, let's say 98%. The actual number is probably higher, but it is hard enough to write a meaningful response to a book that had me saying: "Yes. Yup. Good. Right on. Indubitably." And so on. So we'll say 98%, leaving me 2% of a point to make. Buckle in.

I divide my 2% contribution evenly between two distinct nits I want to pick with Boettke's account. Nit-picking is not the most interesting sort of response essay to write. But nor is it the least interesting. It is at least better than the subgenre that criticizes a book because "it's not what I would have written" or because "it ignores this part of the topic that I like." Unfortunately, both of these approaches to criticism characterize some corners of the world of Hayek Studies and adjacent fields.

When I was a graduate student, I observed one of Boettke's classes that arguing about how to interpret Hayek was a veritable cottage industry. He pointedly (literally, he was pointing) said I was not allowed to specialize in that field. He was partially successful, and the warning has turned me into a better scholar. Instead of asking what contribution I could make to the conversation about Hayek, he nudged me toward asking what contribution Hayekian *insights* might have to larger conversations in political economy and social philosophy. Thanks, Pete. Thankfully, this book follows that approach as well.

Writing a book about economics is itself an economic act: it involves tradeoffs and scarcity. So unless omitting an idea *mischaracterizes* something important or misses its target audience, it's not a worthy criticism. Pete's book makes no such omissions. Indeed, Boettke's book is not what I have written, and all the better for it, because then I wouldn't have learned anything. There's plenty to learn here, even for those with a Ph.D. in Hayek Studies. So rather than claiming that Pete should have written a book that I would have learned nothing from—as some will do—I will pick those

nits, secure in the belief that this is not the most useless response his book will receive. Who knows? Maybe I'll hit upon 3 or even 4% of a contribution along the way.

NIT THE FIRST: AUSTRIAN ECONOMICS IS NOT NEOCLASSICAL

"Hayek is an evolutionary theorist." Nope.

"Hayek is a cyberneticist." Swing and a miss.

"Hayek is all about complexity and emergence." Whiff.

"Hayek is a dogmatic libertarian." Sit down before you fall down.

"Hayek is a near-equilibrium theorist." Hard eye roll.

"Hayek is a closet Nietzschean!" I'm not going to dignify that with a response.

Boettke's book sets the record straight: F. A. Hayek was an Austrian economist (Boettke 2018, pp. xv-xviii, 17-18, 162-169, etc.¹). Or, in Boettke's phrasing, an "epistemic institutionalist" (Ibid., p. xv). This is not to say that evolution, cybernetics, complexity, emergence, and liberalism are not important to Hayek's thought. They are. (The last three characterizations listed above range from dead wrong to bonkers.) But the central threads running through Hayek's thought come straight from Mises and Menger. This point has been obscured by treating Hayek's social theory and political philosophy as a separate enterprise from his work in economic theory, a mistake that Boettke (like Caldwell 2004) studiously avoids. Austrian economics is the central element of Hayek's thought. These other aspects are his attempts to translate or enrich his Austrian foundations with contemporary thought. Adding local ingredients to a burger does it make burgers less American, and sprinkling some Leoni, Tocqueville, Burke, Bertalanffy, or Ferguson on your Mengerian economics does not make it less Austrian.

Boettke foregrounds the phrase "epistemic institutionalism," but this is just his way of following Fritz's lead (Boettke 2018, pp. 5-6). When the phrase "Austrian eco-

nomics” re-emerged, Samuelson’s neoclassical synthesis reigned. Economic models were institutionless vacuums that often assumed perfect information (or something close enough to it; see Boettke Ch. 7). Nowadays, institutions are part of the accepted canon of mainstream economic research, though the textbooks lag (see Furton and Martin 2018). What Pete’s helpful phrase highlights is what is still unique about Austrian economics: not its institutionalism, but rather thinking of institutions in terms of both incentives and knowledge. “Epistemic Institutionalism” updates Boettke’s (1998) claim in his Society for the Development of Austrian Economics presidential address that economic calculation is *the* Austrian contribution to political economy. It also reinforces the uniqueness of Austrian insights in the family of views that Boettke (2012) calls “mainline economics.” And not only does Boettke foreground Hayek’s substantively Austrian ideas, he also explores the Austrian origins of his thought.

While Hayek’s Austrian bona-fides are well-documented, Boettke at times grafts the Austrian school as a whole to the neoclassical tradition (2018, pp. xv, 23, 165). He is not alone here. John Hicks and George Stigler make similar moves (c.f. Collander 2000). Many seem to conflate marginalism with neoclassical economics (Ekelund and Hebert 2002; Opocher 2017). But this grouping is a mistake.

Austrian and neoclassical economics overlap substantially. Both schools are marginalist and emphasize methodological individualism. Both treat supply and demand as distinct, assume that market behavior is non-tuistic, and treat utility as subjective. Moreover, the two schools borrow from one another. As Boettke (2018, p. 97) notes, Hayek was influenced by Knight. Hayek remarks in a footnote in his biography of Carl Menger that Marshall’s copy of Menger’s *Grundsätze* was heavily annotated in Marshall’s own handwriting (Hayek 2008, p. 83, fn. 71). Austrians have returned the favor by taking on Marshall’s supply and demand model, topsy-turvy axes and all.

Thorstein Veblen appears to have coined the term “neoclassical.” He distinguishes it from Austrian economics in the same passage, arguing that they are closer than either is to historicism and Marxism:

No attempt will here be made even to pass a verdict on the relative claims of the recognized two or three main “schools” of theory, beyond the somewhat obvious finding that, for the purpose in hand, the so-called Austrian school is scarcely distinguishable

from the neo-classical, unless it be in the different distribution of emphasis. (Veblen 1899, p. 261).

Whether Veblen—and Boettke—are right or not about 1890’s neoclassical economics, the two approaches grew further apart in the ensuing decades. Boettke (2018, pp. 89–92) is right to note the subtlety and force of Marshall’s own analysis. But the careful attention to context that characterized Marshall and Wicksteed gradually drained from the neoclassical tradition, leading to what Boettke describes as the hourglass of 20th century economics (Boettke et. al. 2007). Economists gradually forgot about institutions and anything else that wasn’t easily put on a graphical axis. Just P’s and Q’s, thanks. Neoclassicals even rejected neoclassical ideas that Austrians largely took on, most notably Knightian uncertainty (Friedman 1962, p. 84).

The relationship between Mengerian marginalism and Marshallian neoclassicism is strikingly similar to the relationship between Smithian and Ricardian economics. Smith focused on the process of economic development (Easterly 2019). The invisible hand did not hold agents in place, as in the First Welfare Theorem, but spurred continuing progress in a continuously deepening division of labor (Holcombe 2006). Equilibrium was there, but was secondary and local, as how deer traded with beavers in the “early and rude state of society” (Smith 1776, Book I Chapter VI). Ricardo flipped the emphasis. Stationary states and static analysis were foregrounded (Morishima 1989). Technical tradeoffs such as the productivity of land, not dynamic changes in knowledge, had the dominant influence. Ricardo was not a strictly static thinker, but he pushed economics considerably in that direction.

Similarly, Menger foregrounds dynamism. The nature of a good depends on mankind’s state of knowledge about its ability to satisfy some desire (Menger 1871, p. 52). That knowledge is subject to revision, and so the set of goods and services—not to mention the institutional environment within which they are traded—are constantly evolving. Market prices are islands of equilibrium in a roiling sea of social charge (Kirzner 1978). Marshall—while still a dynamic thinker in many respects—flips this emphasis, inadvertently or not. He may have wished to emphasize adjustment and learning, as Boettke claims, but aspects of his theoretical approach (which I discuss below) pushed economics back toward equilibrium theorizing. His theory of development is rooted in exceptions to his theory of markets such as agglomeration economies (Young 1928). The foreground shifts to allocation and away from growth.

These two stories are so strongly parallel that one might be tempted to say they are part of the same story. Indeed, my flesh is weak, and I have succumbed to just such a temptation. In an act of reckless categorization that would elevate the blood pressure of a careful historian of economic thought, I have used family trees like that in Figure 1 to give a broad overview of the history of the discipline. It borrows from one of Boettke’s own legendary 2x2 matrices. The “simple world” and “complex world” labels here are relative: how complex is the world *compared* to individual cognition? Varying traditions in economic thought have approached that question very differently.

Mainline Economists complex world economic order	Efficient Equilibrators simple world economic order	Rogue's Gallery complex world economic disorder	Critics and Curmudgeons simple world economic disorder
Adam Smith	David Ricardo	Thomas Malthus	Karl Marx
French Liberals	Mill the Greater Mill the Lesser		
Austrian School	Leon Walras Alfred Marshall	J.M. Keynes	
Virginia School Bloomington School	Chicago School	Paul Samuelson	The English Department
Humanomics	New Political Economy	Joseph Stiglitz	Thomas Piketty

Figure 1: Traditions In Economic Thought

The first column follows what Boettke calls the “mainline” of economic thought. Smith’s picture of an evolving, dynamic market system migrates from Scotland to France in the early 19th century, as Say, Molinari, and Bastiat are much closer to Smith than Ricardo is. This approach passes to Vienna in 1870’s, and these Austrian influences turn up in certain strands of public choice and new institutional economics in the 20th and 21st centuries. In the second column, Ricardo’s equilibrium approach makes its way to Walras (Morishima 1989) and Marshall. That approach gains its most prominence in the Chicago school² and into New Political Economy, with thinkers like Shleifer arguing that underlying objective conditions drive institutional equilibria (Djankov et. al. 2003). Leeson (2019) gives a forceful defense of this approach.

In the third column, deviations from ideal conditions lead to economic disorder. Market failure economics, like mainline economics, recognizes the complexity of the world. But it does not put much stock in the ingenious ways

in which human beings develop solutions to deal with those complexities. Many thinkers in this column also count as neoclassical economists. In the last column—largely absent from U.S. based economics departments, with a few notable exceptions—even simple economic relations breed chaos.

The overview greatly simplifies the history of economic thought. That is its job. For one thing, it ignores the ways in which different strands of economics borrow from one another. It also ignores that ideas sometimes skip a generation. I would be willing to negotiate the positions of some thinkers. And some, like Kenneth Arrow, defy easy categorization. But as a first approximation, I submit that it is better than those that might lump together Austrian and neoclassical approaches. Any time we lump economists into schools of thought we are looking for functional, rough-and-ready groupings that are useful for some purposes and not for others.

That said, the optimal amount of essentialism is not zero. So what is the *main* difference between Austrian and neoclassical economics? In a word, production. Marshall’s revival of the classical approach to cost—but now with a marginalist twist—is what puts the classical in neo-classical. Marshall famously uses the metaphor of scissors (1920, p. 348). Prices are jointly determined by the distinct forces of subjective preferences and objective costs of production. Whether he wished it so or not, it is no accident that rehabilitating classical cost theory pushed neoclassical economics down the same equilibrium-obsessed path.

The Austrian approach to modeling markets is subjectivist all the way down. On the consumer side, it is extremely close to the neoclassical approach. Close enough, for a short article, to say they are the same (there goes that historian of thought’s blood pressure again). But objective costs are a corpse that should have been left in the ground. Kirzner offers a standard explication, echoing thinkers like Wicksteed (1914):

This subjectivist view of Menger differs not only, as already seen, from the classical view. It also differs, at least philosophically, from the Marshallian version of the neoclassical view. In this latter view (which has, largely due to the influence of Knight and his disciples, become the contemporary mainstream view in the United States) economic phenomena are seen as emerging from the interplay of the subjective and objective elements of supply (expressing objective cost conditions) and demand (reflecting consumer preferences). For Menger, as we have seen, the relevant in-

sight is that—while, to be sure, the objective situation has much to do with the specific market outcomes that emerge in the course of the economic process—it is solely the actions of choosing consumers that in fact initiate and drive the process through which these outcomes emerge. (Kirzner 2000, pp. 42-43)

Kirzner's formulation raises an important point. The prices paid for factors of production—key components of marginal cost and thus supply—depend on the ability of those factors to satisfy other consumer demands. So consumer demands are operating through both the supply and demand curves. But I think this formulation also could be improved upon, in a way that more accurately captures the (sometimes implicit) Austrian view.

The scissors determining market prices are real, but the two blades are consumer sovereignty and entrepreneurial expectations. While Kirzner is right that consumer valuations are related to the supply curve they are not the proximate cause that sets factor prices. For an entrepreneur to acquire a factor of production, she must outbid other entrepreneurs. All of these entrepreneurs are forecasting *both* consumer demand *and* supply chain conditions in formulating their bids. Mises calls this appraisal, and it is the *ex ante* half of how markets use economic calculation to cope with the economic problem. The expectations of consumer's willingness to pay (and of the best means to satisfy them), not the consumers themselves, set actual day to day prices. In Boettke's account (2018, pp. 82-83), this is the element of subjective knowledge that the market socialists expunged. But the purge of subjective knowledge is an obvious byproduct of reintroducing objective costs, which begins with Marshall. Objective costs properly belong to a model of a simple world, Smith's "rude state of society."

Foregrounding entrepreneurial expectations places relatively static supply and demand analysis where it belongs: analyzing stable-ish patterns of interaction in a single market within the constantly shifting network of other markets, the market process. My second primary mentor in graduate school, Richard Wagner, asked a characteristically brilliant question during my dissertation defense, which included some of my early thoughts on entrepreneurship and knowledge. Paraphrasing: "What if we started the economics textbooks with production instead of consumer behavior? Instead of treating production as an analogue of consumption [think: indifference curves and isoquants], we would have to grapple with time and ignorance from the outset rather than amendments to a static theory." Since we start with

consumers filling a grocery basket, we neglect to ask where the ideas for the products themselves and the best means of producing them came from. The neoclassical treatment of production costs cannot be separated from equilibrium and thus cannot make sense of Hayek's crucial insight that the market is a discovery procedure (Boettke 86).

"But wait," the sophisticated objector to this view says, "shouldn't the raw physical fact of scarcity have some influence on supply curves?" Reality is indeed "refractory" in the memorable phrasing of Paul Craig Roberts (2002) that Boettke is fond of quoting. To strengthen this argument further, add a heaping spoonful of Alchian (1950). Even if behaviors are chosen at random, selection pressures and survivorship can push firms to operate as if they confront objective cost constraints.

This argument against the Austrian critique of Marshall works. Sometimes. The key condition is that the *selection mechanism* driving such a process must operate more quickly than the *selection criteria* can change. Firms picking strategies at random will end up looking like profit maximizers, provided that the underlying variables—tastes, technology, etc.—remain relative stable. If they are in a state of flux, then behavior that is rewarded on Monday will be punished on Tuesday.

There are choice environments that approximate this static description. Social norms are costly to develop, public, and facilitate solving recurring problems. It is perfectly appropriate to analyze them as static equilibria. A norm, by its nature, is more than a little static. And insofar as there are selective pressures operating, these norms will be affected by objective constraints (c.f. Stigler 1992, p. 459). Reality has plenty of time to refract onto the institutions in such cases. Austrians can easily and fruitfully borrow from static, functionalist, neoclassical accounts of institutions because institutions are often static and functional.

When it comes to commerce, however, we should expect selection criteria to remain in flux. Entrepreneurs themselves can alter underlying variables (Kirzner 1992). Of course, some business practices and industries remain relatively static for extended periods of time. To the extent that they do Austrian and neoclassical scissors will cut just as well. But the bigger the question—across time or across markets—the more important the dynamic perspective becomes. The range of isomorphism between the two approaches is significant but limited.

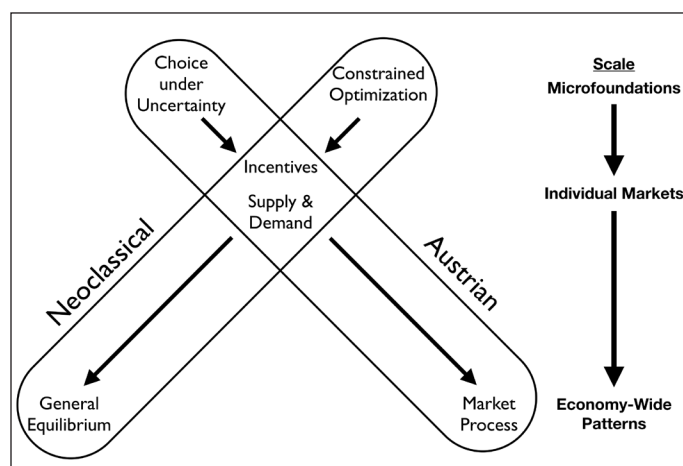


Figure 2: Austrian-Neoclassical Convergence and Divergence

Figure 2, adapted from Martin (2015), illustrates this point. At the level of micro foundations there are subtle differences between the Austrian and neoclassical views. Constrained optimization includes both subjective and objective elements, while choice under uncertainty foregrounds knowledge. Many Austrians and fellow travelers are content to draw strong conclusions from these subtle differences. Buchanan (1959, 1982) for instance criticizes the *normative* application of theories of objective costs. But on the descriptive level, the difference between subjective and objective costs when describing individual action is rarely grounds for a strong argument. This is doubly true because both roads still lead to supply and demand.

When it comes to analyzing movements of individuals markets, the Austrian and neoclassical approaches converge. Boettke is not wrong to note a strong affinity for the two schools of thought. Moreover, noting that similarity is crucial at the current time. Economists are increasingly in the grip of what Boettke (2012, ch. 19) calls “formalistic historicism,” denying the presumptive usefulness of price theory altogether. Empirical work disconnected from economic theory is becoming increasingly common. The danger of this trend is now being revealed in psychology. Michael Muthukrishna and Joseph Henrich (2019) argue that psychology’s current replication crisis is partly due to the lack of an overarching theoretical framework that can help shed light on surprising results that may be due to quirks in research design. In their appreciation for marginalist price theory, neoclassical and Austrian economists are natural allies in the current intellectual climate.

But the further we move away from these questions, the greater the differences become. Boettke himself used to ask the following question: how is it that the school of thought that predicted the three greatest economic events of the 20th century—the Great Depression, the breakdown of Keynesian demand management, and the failure of socialism—end up marginalized? Hayek himself is responsible for two of these predictions. To Boettke’s list, McCloskey (2010) would have us add the ability to explain the biggest economic event of all time, the Industrial Revolution. But none of the pre- or post-dictions could happen without the Austrian emphasis on entrepreneurship. Entrepreneurs need prices as guides, so a dysfunctional price system can generate macroeconomic instability. An absent price system, social collapse. Entrepreneurs drive innovation, but also make errors that require adjustment. Austrian economics offers compelling analyses of these episodes precisely because it is not neoclassical.

NIT THE SECOND: METHOD, THEORY, AND HISTORY

Boettke (2018, p. 165) offers what can be read as a subtle amendment to Rothbard’s (1973) take on the methodology of Austrian economics. Economic theory proper is non-testable, because it is derived via *a priori* praxeological deduction. Assuming one’s starting premises are true and deductions logically valid, one can neither prove nor disprove theory with history but only ascertain whether the theoretical assumptions apply in any given case. This divides Austrian economics into three descending levels of abstraction:

- **Method:** Praxeology
- **Theory:** Catallactics (or Price Theory, economics proper)
- **Application:** History

The appealing intuition behind Rothbard’s claim is that, in explaining historical conditions, one always draws on a theory of some sort. There are no genuinely *a-theoretical* accounts of history, only accounts with implicit and undefended theory. Similarly, every theory either makes its underlying method explicit and defended or implicit and undefended. Nonetheless, this simple representation moves too quickly in its distinctions.

Some ideas that seem naturally theoretical are not wholly *a priori*. It is difficult to imagine a wholly *a-historical* understanding of property rights and other market institutions. Does this mean one can never have a theory of price

formation? Boettke’s move is to distinguish, then, between *pure* theory—such as the law of diminishing marginal utility, which is derived strictly praxeologically—and various forms of *applied* theory—such as price formation. Applied theory focuses on abstract features of institutions rather than particular historical episodes. This sort of defense shrinks the domain of theory proper. On the other hand, Rothbard also moves too quickly naming praxeology a method. It seems natural to consider it a theory as well: etymologically, it means an account of action and involves definite claims about the nature of what it means to act. What, then, is the method for deriving praxeology? Where does one draw the boundaries of method, theory, and application?

It depends. Aristotle (Posterior Analytics Part 13) offers a classic and helpful response to a similar question about the relationship between geometry and optics. On the one hand, geometry is a subject unto itself, a body of propositions subject to disciplined inquiry. On the other hand, the conclusions from geometry furnish the starting point for the science of optics. One might offer a similar analysis of the relationship between calculus and Newtonian physics, or any number of mathematical approaches in various fields. A theory is a method when its conclusions form the baseline propositions of a new theory. The relationship between praxeology and catallactics follows the same pattern.

There is no reason to rope off any particular level of analysis that social scientists engage in to be called ‘theory’ or ‘method.’ It depends on the level of abstraction most appropriate answering a given question. There is no cosmically fixed category of theory independent of the question being asked. Table 1 presents three examples of this point, all of which seem to be equally legitimate classifications.

Example 1	Example 2	Example 3
Method: Phenomenology	Method: Praxeology	Method: Catallactics
Theory: Praxeology	Theory: Catallactics	Theory: Monopoly
Application: Catallactics	Application: Monopoly	Application: History

Table 1: Methods, Theories, and Applications

A theory attempts to answer a question. A method tells us what a plausible answer looks like. An application tells us what phenomena the theory helps us understand. Applications, in this framework, must have some minimal empirical content. These categories are meant to help sort out the relationships between propositions at different levels of abstraction. Not every piece of research will engage three distinctive levels, and some may engage more.

Example 1: Praxeology is derived from some analysis of human nature, experience, or reason. Table 1 describes the method for deriving praxeology as phenomenology, but no strong claim is implied here. The label is meant only to convey that the foundation of praxeology is the internal assessment of meanings, which is then turned to the question of what it means to act. Praxeology includes definite theoretical propositions itself, such as the law of diminishing marginal utility, but it can also be applied to illuminate properties of various (historically contingent) institutional settings such as markets, states, games, etc. These institutional settings are typically defined in a relatively abstract manner, e.g., ‘private property rights’ rather than the specific rules of English common law.

Example 2: Relative to catallactics as a tool of explanation, praxeology is a method. It is used to determine what is a sensible explanation of price formation and what is not. Catallactics, in turn, can be applied to more specific institutional settings than just an abstract market, such as a monopoly. The amount of detail that economic theory provides depends on how abstractly the institutions it is used to study are defined.

Example 3: Finally, one might apply monopoly theory to explain a specific historical episode, such as whether Microsoft had monopoly power in 1995. Price theoretic ideas will appear in the background and be used to adjudicate the answer to the question (e.g., how is the firm able to earn above-normal profits?). Talk on the praxeological level of abstraction will likely seem out of place here, especially given how well-developed price theory is.

An overarching methodology—an account of methods—needs to be sensitive to these levels of abstraction. But it is more helpful to think in terms of a continuum rather than a series of immutable and exclusive domains. Lavoie and Storr (2011) argues along similar lines, making a case that the distinction between praxeology and thymology is more a matter of degree than of kind. Action qua action is the most abstract point on that spectrum, but there are many intermediary levels of more or less specific ideal types before one gets to historically unique actions.

In raising this as a nit to pick with Boettke, I am mostly concerned with pushing him further. His distinction between pure and applied theory is a nice starting point. It highlights both the necessity *and* limitations of praxeological reasoning. In stating that the line between theory and history is more of a continuum, my aim is to open up the interdisciplinary conversation between philosophy, social science, and history even further. It is critical to the growth of scientific knowledge—if we wish to avoid future replication crises—that these various levels of analysis be in contact with one another. Hayek Studies may have an important role to play in this transdisciplinary endeavor after all, as Boettke’s book ably demonstrates.

CONCLUSION

You cannot take Vienna out of Hayek. Hayek’s great appeal is that his thoughts touch on so many disciplines and topics. This has the wonderful effect of promoting cross-disciplinary conversation. But it also means that individuals seize upon certain ideas as central without knowledge of the intellectual context that actually shaped Hayek’s work. By locating Hayek’s thought within 20th and 21st century debates in economics, Boettke’s book offers an important corrective to the exegetical world of Hayek Studies and, more importantly, a way forward to integrate his crucial insights into contemporary social science.

How does Boettke’s book compare to the other great overview of Hayek, Bruce Caldwell’s *Hayek’s Challenge*? They are wonderful complements more than substitutes. While Caldwell remains the most straightforward introduction to Hayek for a general audience, Boettke both offers important updates and speaks more directly to contemporary social scientists. Boettke’s command of the broad currents of economic thought is simply staggering. For those that have a solid background in economics or have read Caldwell, this is *the* book about Hayek.

NOTES

- 1 Really, check almost any other page. For a real good time, check out the “Mises” entry in the Author Index on p. 311. Unless stated, references to Boettke are references to *F.A. Hayek: Economics, Political Economy, and Social Philosophy* (2018).
- 2 I remain agnostic on whether it took root in Old Chicago—Knight himself seemed torn between this approach and the mainline approach—but it definitely held from Friedman and Becker forward (c.f. Reder 1982).

REFERENCES

- Alchian, A. A. 1950. Uncertainty, Evolution, and Economic Theory. *Journal of Political Economy*. 58 (3): 211-221.
- Aristotle. 1984. Posterior Analytics. In: Barnes, J. (ed.) *The Complete Works of Aristotle*. Princeton: Princeton University Press, pp. 114-166.
- Boettke, P. J. 1998. Economic Calculation: The Austrian Contribution to Political Economy. *Advances in Austrian Economics*. 5: 131-158.
- _____. 2012. *Living Economics: Yesterday, Today and Tomorrow*. Oakland: The Independent Institute.
- _____. 2018. *F.A. Hayek: Economics, Political Economy and Social Philosophy*. Basingstoke: Palgrave Macmillan.
- Boettke, P. J., Leeson, P. T., and Smith, D. J. 2008. The Evolution of Economics: Where we are and How We Got Here. *Long Term View* 7(1): 14-22.
- Buchanan, J. M. 1959. Positive Economics, Welfare Economics, and Political Economy. *Journal of Law and Economics*. 2 (1): 124-138.
- _____. 1982. The Domain of Subjective Economics: Between Predictive Science and Moral Philosophy. In: Kirzner, I. (ed.), *Method, Process and Austrian Economics*. Lexington: DC Heath and Co, pp. 7-20.
- Caldwell, B. 2004. *Hayek’s Challenge: An Intellectual Biography of F.A. Hayek*. Chicago: University of Chicago Press.
- Colander, D. 2000. The Death of Neoclassical Economics. *Journal of the History of Economic Thought*. 22 (2): 127-143.
- Djankov, S., Glaeser, E., La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. 2003. The New Comparative Economics. *Journal of Comparative Economics*. 31 (4): 595-619.
- Easterly, W. 2019. Progress by Consent: Adam Smith as Development Economist. *The Review of Austrian Economics*, doi: <https://doi.org/10.1007/s11138-019-00478-5> (accessed 10 September 2019).
- Ekelund, R. B., and Hebert, R. F. 2002. Retrospectives: The Origins of Neoclassical Microeconomics. *Journal of Economic Perspectives*. 16 (3): 197-215.
- Friedman, M. [1962] 2010. *Price Theory: A Provisional Text*. Chicago: Aldine.
- Furton, G. and Martin, A. 2019. Beyond Market Failure and Government Failure. *Public Choice*. 178(1): 197-216.

-
- Hayek, F. A. 2008. *The Fortunes of Liberalism: Essays on Austrian Economics and the Ideal of Freedom*. In: Caldwell, B. (ed.) *The Collected Works of F. A. Hayek*, Vol. 4. Chicago: University of Chicago Press
- Holcombe, R. G. 2006. Does the Invisible Hand Hold or Lead? Market Adjustment in an Entrepreneurial Economy. *Review of Austrian Economics*. 19 (2-3): 189-201.
- Kirzner, I. M. 1978. The Entrepreneurial Role in Menger's System. *Atlantic Economic Journal*. 6 (3): 31-45.
- _____. 1992. *The Meaning of the Market Process*. London: Routledge.
- _____. 2000. *The Driving Force of the Market: Essays in Austrian Economics*. London: Routledge.
- Lavoie, D. and Storr, V.H. 2011. Distinction or Dichotomy: Rethinking the Line Between Thymology and Praxeology. *The Review of Austrian Economics*. 24 (2): 213-233.
- Leeson, P. 2019. Logic is a Harsh Mistress: Welfare Economics for Economists. *Journal of Institutional Economics*, doi: <https://doi.org/10.1017/S1744137419000109> (accessed 10 September 2019).
- Marshall, A. 1920. *Principles of Economics*. Eighth Edition. London: Macmillan.
- Martin, A. 2015. Austrian Methodology: A Review and Synthesis. In Coyne, C. J. and Boettke, P. J. (eds.) *The Oxford Handbook of Austrian Economics*. Oxford: Oxford University Press, pp. 13-42.
- McCloskey, D.N. 2010. *Bourgeois Dignity*. Chicago: University of Chicago Press.
- Morishima, M. 1989. *Ricardo's Economics: A General Equilibrium Theory of Distribution and Growth*. Cambridge: Cambridge University Press.
- Muthukrishna, M. and Henrich, J. 2019. A Problem in Theory. *Nature: Human Behavior*. 3 (3): 221-229.
- Opocher, A. 2017. Marginalist (or NeoClassical) Economics. *Routledge History of Economic Thought*, doi: 10.4324/9781138201521-HET11-1 (accessed [date]).
- Reder, M. 1982. Chicago Economics: Permanence and Change. *Journal of Economic Literature*. 20 (1): 1-38.
- Roberts, P.C. 2002. My Time with Soviet Economics. *Independent Review*. 7 (2): 259-264.
- Rothbard, M. [1973] 1997. Praxeology as the Method of Social Science. In: Murray Rothbard *The Logic of Action*. Cheltenham: Edward Elgar Publishing, pp. 28-57.
- Smith, A. [1776] 2000. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Indianapolis: Liberty Fund.
- Stigler, G. J. 1992. Law or Economics? *The Journal of Law and Economics*. 35 (2): 455-468.
- Veblen, T. 1899. The Preconceptions of Economic Science. *The Quarterly Journal of Economics*. 13(4): 396-426.
- Wicksteed, P. H. 1914. The Scope and Method of Political Economy in the Light of the "Marginal" Theory of Value and of Distribution. *The Economic Journal*. 24(93): 1-23.
- Young, A. 1928. Increasing Returns and Economic Progress. *The Economic Journal*. 38 (152): 527-542.

Two Contrasting Views of People and Institutions in the Philosophical Anthropologies of Hayek and Marx

DAVID L. PRYCHITKO

Northern Michigan University
Email: dprychit@nmu.edu

INTRODUCTION

Peter Boettke, in his rich and masterful discussion of Hayek's lifework (2018), weaves an analysis of Hayek as offering an integrated and coherent whole, covering price theory and capital theory and the puzzle of decentralized plan coordination to problems of market socialism and the democratic process, from issues of epistemology to that of cultural evolution. Hayek may have been a polymath, but he was no dilettante. Boettke presents Hayek as a systematic thinker—even though there are tensions within his work (2018, pp. 283-96)—rather than some kind of philosopher who dabbled in economics or an economist who later in his career simply played with non-economic puzzles. I believe Boettke has vastly succeeded in that endeavor.

Boettke divides Hayek's work into four general periods (pp. xvi-xviii): The first, "Economics as a Coordination Problem," during 1920-1945; the second, "The Abuse of Reason Project," from 1940-1960; the third, "The Restatement of the Liberal Principles of Justice," between 1960 and 1980; and the fourth, "Philosophical Anthropology and the Study of Man," after 1980. Boettke closely discusses, with fine scholarly precision, the first three periods throughout the course of his book. The fourth, Hayek's philosophical anthropology, he writes, "is a challenge not only to the development in economic thinking by John Maynard Keynes and Oskar Lange, but broad social theorists such as Karl Marx, Sigmund Freud, and Karl Polanyi. The arguments that Hayek develops in this phase of his career will not be treated with the depth they deserve in this book. It is my hope that future scholars will find the ideas I discuss in these pages to be intellectually enticing and promising so they will want to apply them to the contemporary intellectual debate in moral economy and social economy" (p. xviii).

I would like to take up Boettke's invitation, on the topic of Hayek's philosophical anthropology and its challenge

to Marx. I will argue that their concept of the person may be the core difference between them. While Hayek is most widely known as a critic of socialism, Hayek focused his conversation on the theoretical market socialists and socialist intellectuals of his era, and unfortunately never really engaged Marx himself. Consequently, Boettke does not discuss Marx at all in his book. I would like to take advantage of that open opportunity in this paper.

HAYEK'S PHILOSOPHICAL ANTHROPOLOGY

While mentioning Hayek's fourth phrase, Boettke does not provide a systematic discussion of Hayek's philosophical anthropology in the remainder of the book.¹ Now, philosophical anthropology may focus on the evolution of human history, but it is primarily an examination of what constitutes human being. I have in mind not so much a question of human nature per se but a question of Hayek's conception of human being, one that examines our being in the world, not through the lens of atomistic individualism, but being as embedded in social relationships and institutions. While Boettke does not offer an account of precisely what Hayek's conception of human being is, one can easily draw it out from Boettke's analysis throughout the entire book.

In fact, readers of this journal are probably already aware of Hayek's philosophical anthropology, of his conception of man, even if it hasn't been stated as such. Hayek views the person as a being who follows rules, some explicit, most often tacit (language being an obvious example) that have evolved over the millennia. These rules allow the person to engage in a means-ends rationality through the use of one's reason. The person has the ability to learn, and to adjust to changing circumstances. That said, one's knowledge is inescapably incomplete, and moreover, what one actually knows cannot be fully articulated. As social beings, people coordinate their plans with one another—they get on with

lives—through cultural customs and practices, which only over time might evolve into explicit codes and rules of just conduct. The gains people enjoy through cooperation may be a direct product of such rules of conduct, but the rules themselves have generally not been rationally designed with that objective in mind, and are often codified only well after the benefits have been enjoyed. Hayek’s narrative runs from the beginning of civilization to advanced capitalism, how people stumbled upon practices that sustained their numbers and well-being. Human history itself is, in this way, a “discovery process,” as Boettke says (2018, p. 185).

Through that course of history, people find themselves within evolved sets of institutions not of their own making, but critical to fulfilling their own individual and group objectives in a way that allows for an extensive social division of labor, higher productivity, and a rise in their material standard of living. Those rules center upon, among other things, the exchange of private or separate property. People in the modern era of advanced market institutions depend critically on the pricing system to allow them to engage in rational economic calculation and to both receive and transmit information, and act upon their own particular knowledge and interpretation of their own unique situations, through the ever-changing latticework of market prices. Market institutions such as prices—being perhaps the most obvious example, but certainly not the only—perform a *cognitive* function (hence Boettke’s discussion of “epistemic institutionalism” throughout the book, which he applies to law and other institutions as well), they allow people to engage in acts of cooperation successfully through time.

Boettke puts it this way:

Though the complex structures of society are the composite of the purposive behavior of individuals, they are not the result of conscious human design. The intentional, that is, meaningful, behaviors of individuals affirm or reaffirm the overall order in society. But social order is not the result of conscious design and control. Perhaps the greatest source of misunderstanding in our social world is the failure to view society as an interpretive process which translates meaningful utterances of the human mind into socially useful knowledge, so that the various anonymous actors may come into cooperation with one another, regardless of whether this was their intention (Ibid., pp. 184-5).

He says later:

[M]an, to Hayek, was a fallible creature caught between alluring hopes and haunting fears, whose capabilities—to the extent he revealed them—emerged in the social process defined by specific institutions (Ibid., pp. 231-32).

While this may sound only like a theory of institutions, in Hayek it is ultimately about the intersubjective and social nature of our being and the critical role that undesigned institutions play in cognitively orienting the life-projects of men and women. It is, at its core, a statement about man as a phenomenon, about the *rule-guided and institutional nature of our being*, about what we can and cannot accomplish with the use of our reason. *Man has reason because we have followed rules, those same rules are generally not the product of our reason. Individuals are beings of an evolved and, later, emergent, order not fully of their making, and they are critically dependent upon that order for their freedom and prosperity.* If we add Hayek’s economic theory on the knowledge problem to this anthropological (if not ontological) view of the person, there is a clear implication: the attempt to overturn those undesigned institutions in favor of a more “rational” comprehensive plan will undercut if not destroy the very types of epistemic processes that allow us to successfully orient ourselves in the social world, and enjoy a sustained increase in our material standard of living.

THE PHILOSOPHICAL ANTHROPOLOGY OF MARX

Hayek’s contrast with Marx couldn’t be more stark. When Marx speaks of “man,” he seems to lose sight of individual persons and instead treats people as a collective unit, as (what he calls) a “species being.” While Hayek speaks of the individual as a being fundamentally embedded in a constellation of social relations and institutions, and thereby retains a sophisticated as opposed to naïve methodological individualism (an atomistic individualism so characteristic of mainstream neoclassical economics), Marx seems to retain a naïve methodological holism, the opposite of a naïve individualism, yet with severe problems of its own. “Man,” especially under the institutions of capitalism, struggles with “himself.” Not “himself” as an individual person, but “man” as a collective agency struggling with itself ... as a collective agency.

It stems from Marx's praxis philosophy, which is developed in *The Economic and Philosophic Manuscripts of 1844* (1964), first published well after his death, in 1932. Marx views man as a maker, a producer, a creator. Man is a "praxis being," one who has the capacity to deploy reason and engage in free, creative, willed activity. Man has the power to plan, to design, to organize, to put will and imagination into action, to affirm and fully realize himself through his activity. As Mihailo Marković put it, "*Praxis is ideal human activity, one in which man realizes his optimal potentialities of his being, and which is therefore an end in itself. Marx never gave an exhaustive definition of this notion, although it plays a key role in his anthropology and is the fundamental standard of his social criticism*" (1974, p. 64).²

Notice Marković's last statement. Marx deploys his concept of man as praxis being to critically evaluate peoples' actual place within the economic, social, and political institutions that have historically surrounded them. In the 1844 Manuscripts he devotes an entire chapter to "Estranged Labor" (1964, pp. 106-199). Why labor? Because man as maker, producer, and creator is denied his abilities, which is obviously true of the slave, and the peasant of the feudal era, but also of the "free" laborer under the institutions of capitalism. Production is not a free, creative activity. From the worker's perspective, productive efforts are a source of *disutility*. The worker's *wage* provides the utility. Man as laborer has no control over the fruits of his labor—he produces commodities that are designed, planned, organized, and owned by the capitalist employer, which are then thrown into the competitive market in search of profit. "If my own activity does not belong to me, if it is alien, a coerced activity," Marx writes, "to whom, then, does it belong?" "To a being *other* than myself. Who is this being?" Marx responds: "The *alien* being, to whom labor and the product of labor belongs, in whose service labor is done and for whose benefit the product of labor is provided, can only be *man* himself" (p. 115). In addition, labor and machinery are considered *substitute inputs* in the eyes of employers. But if man can be easily substituted by an inanimate piece of machinery in the workplace, what does that make of man as a creative being?

Man, as laborer, being treated like, and treating himself like, an unthinking thing—an exchangeable "good," a "commodity," an "input," must treat other men the same. Hostile class relationships result. And on top of that the market system is an alien, independent power, something beyond man's control. It is not only that labor is alienated under capitalism. All of us are: "man" is estranged from

"himself." "Estranged labor turns thus... *Man's species being*, both nature and his spiritual species property, into a being *alien* to him, into a *means* to his *individual existence*. It estranges from man his own body, as well as external nature and his spiritual essence, his *human being*" (p. 114). This is not some kind of psychological concept. Marx's concept of alienation and estrangement means that "man" is institutionally and structurally blocked from his full potential as a praxis being.

While alienation did not begin with the introduction of private property—the urge itself to want to separate "mine" from "thine" is probably the first cause of alienation—private property makes alienation structural and systemic. Private property becomes an *institution*.³ Marx's narrative runs from the primitive and ancient orders through feudalism to capitalism, his main focus. With the development of private property other institutions unfold over the long sweep of history—markets, money, the pricing system, rules and laws that legitimate and enforce private property rights, commodification and market exchange, the introduction of the factory system and boss-worker relationships, in short, the economic base of capitalism, with its own class antagonisms and crises. Marx uses the method of dialectical materialism to examine these institutional changes through time, with his concept of man as a praxis being as its foundation (cf. Marcuse 1932) and, recalling Marković above, as the benchmark of his social criticism. His philosophical anthropology drives his dialectical critique.⁴

Marx certainly recognizes that capitalism is an unplanned order—a spontaneous order, if you will—driven by the lure of profit and the punishment of loss, allegedly coordinated by a Smithian invisible hand, and he's horrified by what he sees. While there's detailed planning within each capitalist enterprise (which he finds exploitative and thereby problematic in itself), the overall system of the social division of labor and commodity exchange is out of peoples' full control. Man's ability to freely shape his circumstances and collective being is most severely blocked under the institutions of capitalism, he is estranged from his full praxis potential, he fails to realize what he is and can be.

(R)EVOLUTION AND INSTITUTIONS: WHAT PEOPLE CAN AND CANNOT ACCOMPLISH

In forming his philosophical anthropology, Hayek stands in the present and looks back to the empirical past; Marx stands in the present and looks both to the past and forward to an imagined future. Hayek views the person as

an institutional being, critically dependent for his material well-being on acts of cooperation with anonymous others, today, within a largely unplanned and emergent commercial order; Marx sees man as a collectivity that has the potential to rationally design and organize social and economic institutions, but finds himself currently lost in the anarchic sea of capitalist commodification. Hayek applies his philosophical anthropology to examine the long sweep of history, in part, using a Lamarckian approach to cultural evolution; Marx uses the dialectic. Hayek seeks to preserve the institutions of private property and the market order that have evolved over the millennia; Marx seeks to destroy them. Hayek offers a largely dispassionate analysis; Marx is much more exciting.

Who is correct? Now it may be that both are wrong. Marx's dialectical materialism is loaded with problems that I don't need to discuss here. But, also, Hayek's theory of cultural evolution has its critics. Boettke carefully defends Hayek against these criticisms (2018, pp. 186-91), but even if Hayek's cultural evolution theory is problematic, I don't see the difference between he and Marx as a debate over methods and methodology *alone*. Nor do I see it as a simple difference between ideologies. The difference is epistemic, regarding both the uses and limits of our reason *and* the informational and communicative character of market institutions.

But I'll go further and suggest the key disagreement between Hayek and Marx is over their conception of the person, their conception of man—the core of their philosophical anthropology. So let's continue the discussion of Marx's conception of man as a praxis being just a little longer.

Marx's narrative sees man as alienated and estranged—i.e., blocked from realizing his praxis being under pre-socialist institutions. Now, alienation only makes sense in *this* context if praxis is a *potential and realizable possibility*, if we can actually employ our reason and, at some point, fully, freely, and creatively design, organize, and control economic and social institutions in a way that will deliver us, in Marx's words, from the realm of necessity to the realm of freedom.

It will take a revolution to do it. And we're well aware that Marx thinks it's dialectically inevitable. Socialism will overturn the economic institutions of capitalism, replacing private property, markets, commodification, money, prices, and so on (the very institutions which Hayek argues are necessary for cognitive orientation, freedom, and human flourishing) with the institutions of social ownership and some kind of comprehensive economic plan.⁵ Marx views

socialism (or communism) as a "reintegration," a "return of man to himself, the transcendence of human self-estrangement" (1964, p. 135). He goes in further detail:

Communism as the positive transcendence of private property, as human self-estrangement, and therefore as the real appropriation of the human essence by and for man; communism therefore as the complete return of man to himself as a social (i.e., human) being—a return become conscious, and accomplished within the entire wealth of previous development. [Communism] is the genuine resolution of the conflict between man and nature and between man and man—the true resolution of the strife of existence and essence, between objectification and self-confirmation, between freedom and necessity, between the individual and the species. Communism is the riddle of history solved, and it knows itself to be the solution. The entire movement of history is, therefore, both its actual act of genesis (the birth act of its empirical existence) and also for its thinking consciousness the comprehended and known process of its becoming (Ibid.).

"Man" can only become "himself" when he designs institutions to fit his will. Under the *appropriately planned* system, alienation and estrangement will finally come to an end. The emergent order of commercial society will be abolished. Marx is certain of it. The antagonism within "man" will finally end under full-blown socialism. A unity will occur. Man returns to himself, man will truly be what he can and must be: a collective that freely and comprehensively designs, plans, and coordinates a modern, non-private property, non-market based order, in a way that creates material abundance and human flourishing. That *is* man the praxis being at work. That is the essence of Marx's conception of man. That is the core of Marx's philosophical anthropology.

And it is precisely here that Marx fails. If Hayek (and Mises before him) are correct when they argue comprehensive planning faces insurmountable calculation and knowledge problems that lead to failure (which readers of this journal are probably well aware of and I need not repeat here; see Boettke's (2018) discussion on pp. 119-37, and 141-46), it is not only that Marx suffers from an "abuse of reason." Marx's concept of man as a praxis being—as Marx himself understands and articulates it—is *false*. "Man" is *not* a collectivity that can and will successfully plan a modern economy which will lead us to a realm of freedom.

If comprehensive planning is epistemically impossible, it does not imply that man *cannot* “return to himself”—as if people would then be permanently alienated in a market economy, that we must somehow accept alienation as a fact of life. It implies that Marx’s own notions of “man” and “himself,” “alienation” and “estrangement,” are fundamentally flawed. There is no “himself” to return to.⁶

Marx forms man in the image of a collectivity that comprehensively plans the economy. To the extent that we are not dialectically moving through history towards a Marxist heavenly realm of freedom—a comprehensively planned economy—the story is problematic, at best. But worse, to the extent that we in fact cannot comprehensively plan an economy, then Marx’s substitute for God—the praxis being—does not exist, and Marx’s *own* conception of “alienation” and “estrangement”—like the Christian’s own conception of “sin” should God not exist—is fundamentally flawed. If socialist planning cannot work, we are not “stuck with” or “condemned to” alienation in Marx’s sense. While there are very real problems in capitalism—and real-existing socialism -- Marx’s *own* concept of alienation as an estrangement from an alleged praxis being would have to be abandoned and replaced by something else. His philosophical anthropology just doesn’t work.

ON GRAND NARRATIVES, MARXIAN AND HAYEKIAN

Marx floundered with his conception of human beings, and used it as a foundation for a totalistic theory of society and revolution. As persuasive as it once was among many, it fails as a Grand Narrative.

After reading Peter Boettke’s presentation of Hayek, he implicitly (if unintentionally) suggests Hayek formed a grand narrative of his own. Hayek’s four phases are threaded into a coherent whole, which Boettke then parades as having contemporary political relevance as an *emancipation project*. Boettke argues:

The challenges of a globalized world are not new, just as fear of the “other” is not a new challenge to true liberalism. As Hayek pointed out repeatedly, the moral intuitions that are the product of our evolutionary past, which are largely in-group morals, often conflict with the moral requirements of the great globalized society [my remark: perhaps Hayek himself actually has some kind of *backward-looking* “estrangement” concept of his own at work here!]. We, as true liberal

radicals, and in our capacity as scholarly students of civilization, as teachers of political economy and social philosophy, and as writers and public intellectuals, must aid in the cultivation of more mature moral intuitions if the tremendous benefits of the great society are to be sustained (2018, p. 259).

Moreover:

The true liberal mind-set ... is one of cultivating and unleashing the creative powers of a free civilization. It is one that celebrates human diversity in skills, talents, and beliefs and seeks to learn constantly from this smorgasbord of human delights. Liberalism is, in theory and in practice, about emancipating individuals from the bonds of oppression (Ibid., p. 261).

Can it be, that by not espousing the total destruction of modern capitalistic institutions, Hayek’s quest for a complete social theory—one that runs from his philosophy of mind through the speculative and historical examination of cultural evolution to the great questions of constitutional democracy and comparative political economy, and one that calls for a vision of a liberal utopia of its own—can it be that Hayek’s lifework fully and successfully avoids the problems we have seen in Marx and others? In short, does Hayek save the modernist project of the grand narrative from its own self-destruction?

NOTES

- 1 There is also a straightforward error of omission: Boettke acknowledges Hayek’s book, *The Sensory Order* ([1952] 1963) on pp. 16 and 306, but he does not discuss it at all, even though there has been a growing literature on the subject: Butos (2010) and Marsh (2011), for example, which link Hayek’s philosophy of mind with his social theory.
- 2 Yes, this is the same Mihailo Marković who overturned his lifework regarding Marxist humanism and internationalism and became the key propagandist for Slobodan Milošević’s nationalist campaign in Serbia during the early 1990s.
- 3 Marx: “though private property appears to be the source, the cause of alienated labor, it is rather its consequence, just as the gods are originally not the cause but the effect of man’s intellectual confusion. Later this relationship becomes reciprocal” (p. 117).

- 4 Althusser (1967) argues that there is a grand “epistemological break” between Marx of the 1844 Manuscripts and Marx of Capital, in which the mature Marx abandoned the praxis philosophy project of the earlier Marx. I (and others who emphasize Marx’s praxis philosophy) see the same theme of alienation and estrangement continuing even though he generally doesn’t use the term (preferring “commodity fetishism,” “reification,” and other similar concepts) in his later discussions of commodities in *A Contribution to the Critique of Political Economy* (1981 [1859]) and chapter 1 of volume I of *Capital* (1906 [1867]). In fact, Marx brings the language back in and speaks of labor being alienated from its product, facing an alien will, etc., in *Grundrisse* (1973, pp. 452-71), which was written after the third volume of *Capital*, and remained unpublished until 1939. For more on the centrality of praxis philosophy and the corresponding concept of alienation in Marx, see Fromm (2004 [1961]), Petrović (1967), Stojanović (1973), and Marković (1974).
- 5 There has been some debate over whether Marx conceived the comprehensive plan as being centralized or decentralized. See Prychitko (1991; 2002, chapters 2-6). The important point for my purposes here is that the plan is comprehensive in nature, completely abolishing market institutions and processes.
- 6 Allow me to offer an analogy. Consider the Christian concept of sin, sin as some kind of separation from God, and through the salvation of Jesus sinners will ultimately join God in heaven. Now, for the sake of argument, what would become of *this particular* concept of “sin” if God didn’t exist? What would become of the many Christian narratives of a group of “fallen” people who will be saved? Would we be “stuck” in a world of sin, *considered as a separation from God*, if God doesn’t exist? Without God, the whole concept of “sin” would have to be fully reconsidered, if not abandoned. (On the other hand, if God doesn’t exist it does not imply that evil, and so on, no longer exist. Evil is real. But it would have to be examined in a different way.) Also, and more broadly, consider Teilhard’s (2008) narrative that human history itself is evolving toward a union with God. If God doesn’t exist, his narrative would be fundamentally flawed at its core. That much would be obvious.

REFERENCES

- Althusser, L. 1967. The Humanist Controversy. In: Althusser, L. (ed.) *The Humanist Controversy and Other Writings*. New York: Verso, pp. 221-305.
- Boettke, P. J. 2018. *F.A. Hayek: Economics, Political Economy and Social Philosophy*. London: Palgrave Macmillan.
- Butos, W. N. (ed.) 2010. *The Social Science of Hayek’s “The Sensory Order”*. Bingley: Emerald.
- Fromm, E. [1961] 2004. *Marx’s Concept of Man*. New York: Continuum.
- Hayek, F. A. [1952] 1963. *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology*. Chicago: University of Chicago Press.
- Marx, K. [1932] 1973. The Foundation of Historical Materialism. In: Marcuse, H. (ed.) *Studies in Critical Philosophy*. Boston: Beacon Press, pp. 1-48.
- Marković, M. 1974. *From Affluence to Praxis: Philosophy and Social Criticism*. Ann Arbor: University of Michigan Press.
- Marsh, L. (ed.) 2011. *Hayek in Mind: Hayek’s Philosophical Psychology*. Bingley: Emerald.
- Marx, K. 1906 [1867]. *Capital, Volume I: The Process of Capitalist Production*. Chicago: Charles H. Kerr & Company.
- _____. 1964. *The Economic and Philosophic Manuscripts of 1844*. New York: International Publishers.
- _____. 1973. *Grundrisse: Foundations of the Critique of Political Economy*. New York: Penguin Books.
- _____. [1859] 1981. *A Contribution to the Critique of Political Economy*. New York: International Publishers.
- Petrović, G. 1967. *Marx in the Mid-Twentieth Century: A Yugoslav Philosopher Considers Karl Marx’s Writings*. New York: Doubleday.
- Prychitko, D. L. 1991. *Marxism and Workers’ Self-Management: The Essential Tension*. Westport: Greenwood Press.
- _____. 2002. *Markets, Planning and Democracy: Essays after the Collapse of Communism*. Northampton: Edward Elgar.
- Stojanović, S. 1973. *Between Ideals and Reality: A Critique of Socialism and Its Future*. New York: Oxford University Press.
- Teilhard de Chardin, P. 2008. *The Phenomenon of Man*. New York: Harper.

A Problem of Knowledge for Hayek

JEREMY SHEARMUR

Email: jeremy.shearmur@anu.edu.au

INTRODUCTION

Peter Boettke's *F. A. Hayek: Economics, Political Economy and Social Philosophy* is an interesting book, although the fact that it is written as a number of independent essays was, for me, a source of frustration. For it meant that we tended to get repeated introductions to important but basic Hayekian themes, rather than a more detailed exploration of difficult or more controversial subjects. Boettke also seemed to me, at times, to come over as a bit of a cheerleader for Hayek. I'd agree that there is much to cheer about. But there is a risk that, at times, his style was more like that of someone on a debating team, rather than that of a scholar pursuing a research programme to which he was attracted, but who also admitted clearly just what the problems were that his approach faced.

As someone who has worked on Hayek for many years, I found many things in Boettke's discussion interesting and stimulating. At the same time, there was also much that I disagreed with, including the tight links that he suggested between Hayek and Mises, his discussion of methodology, his treatment of *The Road to Serfdom* and of what might be called Hayek's interventionism. However, I thought that it might be most useful, on the present occasion, to put these issues to one side, so that I could concentrate upon one central theme.

Boettke's stress on the significance of institutions for Hayek's analysis seemed to me particularly good, notably his discussion of this in the context of Hayek's work on economic calculation. But it also seemed to me—other than his noting, in his final chapter, the tension in Hayek between his stress on 'evolutionary' emergence and the role of critical reflection in the improvement of, and indeed in some cases in the construction of, institutions—that he did not fully bite an important bullet in his discussion of this aspect of Hayek's work. It is this. Boettke stresses, repeatedly, the importance of suitable institutions and the rule of law. But this faces us with the problem of *which* institutions, *what* understanding of the rule of law,¹ and improve-

ment on the basis of *what* knowledge. Indeed, a critic might say that Hayek's work is haunted by the ghost of a Platonic philosopher-king. For Hayek, right through his work, and alongside his key themes about the social distribution of knowledge, and the importance of various forms of spontaneous order, himself makes crucial use of claims to theoretical knowledge, and also implicitly assumes its privileged social instantiation. But it is not clear that the social institutions that Hayek favours really offer room for this to take place. Further, Boettke, in various critical comments about 'élites', seems to me to add to the problems that Hayek faces here. Let me briefly refer—in line with my 'haunting' theme—to four manifestations of such appeals to knowledge in Hayek's work.

First, consider Hayek's inaugural lecture at the L.S.E., 'The Trend of Economic Thinking'.² Hayek there developed a criticism of the ideas of the 'younger' historical school of economics (ideas which were shared by some people at the L.S.E. at the time³), on the grounds that they served to undermine the important contributions that work in theoretical economics made to the refutation of various utopian ideas. He refers, for example, to Mises' work on the problems of economic calculation under socialism. For Hayek, a key contribution of theoretical economics is that it can serve to inform us that various ideas that we might have about what social arrangements would be attractive, are, in fact, not realizable.⁴ Hayek's point is, it seems to me, a strong one; it is also not just purely theoretical, but also empirical and historical work which can play such a role.⁵ Hayek's concern—to combat the view that there could not be any knowledge of this kind—seems to me important. It is also a battle that seems to have to be re-fought in each generation: those attracted to postmodernism and poststructuralism seem to me in danger of leading us into similar ground to that occupied by those influenced by the younger historical school in Hayek's day. At the same time, criticism of the critics of such claims to knowledge, like that in Hayek's Inaugural Address, is not enough. For as we shall see, there are problems about the status of such knowledge (not least in the face of such important points as falli-

bilism, and the—legitimate—existence of different competing theoretical research programmes), but also about what I will refer to as the need for its social entrenchment, if it is to play the kind of role that Hayek envisaged for it in the discouraging of utopian fantasies.

Second, there is the fact that Hayek himself—through most of his work⁶—while (justly) critical of ‘rationalistic’ wishes to reconstruct all institutions from the ground up, and appreciative of the way in which various institutions which have evolved⁷ may be of value, also favoured the idea that inherited institutions could and should be improved. What he said about this ranges from ideas about planning for freedom in *The Road to Serfdom*, through to his ideas about how the kind of common-law-based system that he came to champion in *Law, Legislation and Liberty* might be improved. It is worth bearing in mind that, in this connection, Hayek argues both in favour of a particular kind of discovery procedure amongst common-law judges, and favours the reform of law by a legislature if a system of common-law precedents leads in problematic directions. He also makes occasional remarks which would suggest that the legal system may stand in need of piecemeal reform in the light of our analysis of the economic consequences of existing law. All this, again, appeals to expert knowledge—but also, implicitly, to its institutionalization, in the sense of the relevant knowledge being in the hands of those who will undertake this revision.

At the same time, one must ask: institutionalization in what form? For, clearly, there is no reason to suppose that a body of elected lay people like that which Hayek discusses as constituting his preferred second chamber in *Law, Legislation and Liberty*, would be informed by such ideas. It is often our intuitive and deep-seated ideas which, on Hayek’s account, may stand in need of correction. It needs also to be stressed, that both because of the fallibility of any such ideas, and the risk of the abuse of their power by people who are given authority to act on such ideas,⁸ that there are complex and difficult problems posed by all this.

Third, there is Hayek’s appreciation of the operation of a market-based social order, and of other well-functioning inherited social orders, as such. Given such an appreciation, it makes sense for us to make use of such institutions, acting within inherited systems of rules and so on, and not revolting against them even when such orders throw up consequences which seem to us to be problematic or unfair. But such a perspective itself rests, in the background, on a (developing) theoretical understanding of the character of these systems. To be sure, societies may simply be influ-

enced by conservatism. But a conservatism without theoretical understanding means that people will be attached to rules and institutions *whatever* these might be, and *whatever* their overall consequences are. A Hayekian liberalism, by contrast with this, is one which is informed by a critical understanding of how certain such inherited social orders work, and of course about how they might be reformed.⁹

Finally, there is the way in which Hayek appeals to the way in which we might set out to design new institutions, based on our theoretical ideas about how inherited, and well-functioning, ‘spontaneous orders’ work. His late proposals for the *Denationalization of Money* are an interesting example of this, but they are by no means the only one.

THE HARVEY ROAD PROBLEM

In his chapter ‘The Anatomy of an Economic Crisis’, Boettke discusses the problems of economic policy-making, and refers to the way in which—to quote Roy Harrod—‘Keynes tended till the end to think of the really important decisions [as] being reached by a small group of intelligent people’. Harrod refers to this in terms of ‘the presuppositions of Harvey Road’, the street in Cambridge in which the Keynes family lived. Harrod goes on to point to a dilemma of: ‘how to reconcile the functioning of a planning and interfering democracy with the requirement that in the last resort the best considered judgment should prevail’.¹⁰ Boettke here makes an important point in the context of decision-taking in the real world. He goes on, in an ‘Epilogue: What Would Hayek Do’, to note that Hayek’s own earlier views, which called for active policy-making by a central bank, were open to the same objection. However, Boettke (2018, p. 71) notes that, in Hayek’s (1978) later work, for example *The Denationalization of Money*, second edition, he became critical of central banks, and that he more generally moved to a view in which ‘money can and should be provided through market mechanisms rather than by politically influenced and imperfectly informed monetary authorities’.

While this is all true enough concerning this aspect of Hayek’s views (and it is also worth noting that this argument on Hayek’s part was itself based on claims to knowledge about how an alternative system to a central bank might operate!), it seems to me that it does not serve to dispel the underlying problem with which I am here concerned. It is that classical liberalism of the kind that Hayek, Boettke and I favour, rests in important ways on theoretical knowledge—and, in some way or another, on its social ac-

ceptance. Boettke, in a most interesting chapter, ‘The Reconstruction of the Liberal Project’, discusses populism of the left and the right. If one considers the political scene in the United States at the time at which I write, it seems to me truly alarming the extent to which influential people on the left of the Democrats—and their supporters—regularly display an enthusiasm for socialism, without, on the face of it, having any conception of the theoretical problems that have been raised concerning the ideas about which they are so enthusiastic. While the Republican Party seems to have been willing to follow Trump in his uncritical enthusiasm for tariffs and economic nationalism. All this in a country which not only had a long tradition of broadly liberal individualism, but in which, also, there has been almost unmatched time and money spent in the education of people about the significance of markets, the price system, and so on.¹¹

There are two aspects to this. Clearly, I’d welcome it if people generally *accepted* broadly Hayekian ideas about the problems of economic calculation and drew what seem to me the appropriate lessons from them. But what is disappointing—and poses our problem—is that, despite everything, they don’t seem to be even aware of them. Second, it is important to note that even if they became aware of these ideas and engaged with them, this does not mean that they would necessarily become classical liberals. Here, Simon Griffiths’ (2014) book *Engaging Enemies: Hayek and the Left* seems to me instructive.¹⁴ In this, Griffiths surveys the ideas of a number of (mildly) socialist British intellectuals, and reports on the ways in which they engaged creatively with Hayek’s work. It is possible, after all, to read one of Hayek’s key concerns in *The Road to Serfdom* (and in much of his subsequent work) as being with the problem of how people could pursue values like those to which he was attracted as a young man, but in ways that don’t pose problems for a liberal economy or for people’s freedom.

All this seems to me to lead on to two concerns. The first relates to the organization of the academic world, the second to what one might call the significance of the social entrenchment of our best—but of course fallible—ideas.

Consider, in this latter context, the following brief exchange reported on in Bob Woodward’s *Fear*, which discussed the early period of the Trump White House, and which has been singled out for discussion by David Runciman in his recent *Where Power Stops*.¹⁵ A conversation between Trump and Gary Cohn, his chief economic advisor, is reported to have run as follows:

“We’re upside down’ on trade deals,” Trump said. “We’re underwater on every one of these. The other countries are making money. Just look at all this stuff up there. We’re paying for it all.” Cohn tried to remind him that it was actually good for the US economy. “I don’t want to hear that,” Trump replied. “It’s all bullshit.” Trump wanted to bring the money home, especially from South Korea (Runciman 2019, p. 198).

Later, Woodward reports the following exchange:

Several times Cohn asked the president: “Why do you have these views?” “I just do,” Trump replied. “I’ve had these views for 30 years” (Ibid., p. 201).

My concern, here, is not with who is right about these matters of economic policy. The problem, it seems to me, which faces the classical liberal as much as it did Keynes, is that it matters for each of us that policy should be guided by the best ideas. A key role is played, in a Hayekian liberalism, by ideas, including ideas about what makes for good institutions. These are, obviously, fallible, and need to be open to contestation. But what matters, in this context, is that the contestation of the ideas should be on the basis of their merits, rather than just on the basis of our gut feelings.

Further, as in the case illustrated by the exchange with Trump, what is also needed is an acceptance of the social division of labour. Each of us is limited in what we can know about, in any detail. This means that we must, of necessity, depend on the (fallible) views of experts. If we are suspicious about something, we may ask if there are people with relevant expertise who have differing views, and if we are in the right kind of position to do so—such as a President could have been—we might ask them to explain to us their views, what is at issue between them and the more dominant views, and why they think that their ideas are to be preferred, and so on.

What seems to me to make no sense, not least if—as Hayek does—you think that ideas matter, and that some ideas that have a lot of intuitive appeal are, in fact, highly problematic for reasons that can be illuminated by theoretical reasoning (e.g. that of Mises!), is simply to appeal to our (inherited) gut feelings, or to ideas that might be endorsed through opinion polls.

WHAT IS TO BE DONE?

The situation seems to me complex, not least in the light of what Hayek has written about the social dispersion of knowledge, and about the importance of inherited institutions, but not one which is dealt with adequately by the endorsement of anti-elitism. There seem to me, rather, two different levels of problems to be addressed, the answers to both of which might be argued to be elitist. They are, obviously, complex, and I cannot here deal with them in any detail. But a few words might be useful.

The first relates to the organization of the academic world. Here, we are faced with a complex product of human action but not of systematic human design. Academics work on the basis of a whole range of programmatic ideas—from those inspired by particular ideological affiliations, through to those which they pick up from the various paradigms into which they are trained. It is also the case, however, that there is a complex social epistemology, constituted by the various incentives and pressures to which scholars are subject. These range from the editorial policies of various journals, the ways in which journals (and publishers) are ranked within different disciplines, the criteria for hiring, promotion and tenure at different universities, the basis on which grant funding is available, and so on. There is also the issue of the preferences of students (and their parents) as consumers, and the preferences of those who give money for educational purposes.¹²

This, it seems to me, is an interesting example of an unplanned order, but one which in my view stands in need of piecemeal reform.¹³ For it is striking that, if we are interested in the development of a body of tentative knowledge which aims at contentful truth, how we are currently proceeding is problematic. It is here that a proper account of my argument would go off into quite a bit of detail concerning the philosophy and also the history and sociology of science—which I must spare the reader on the present occasion.¹⁴ But it seems to me that we need to encourage on the part of academics not just particular, specialized work, but also reflection on broader themes and the current state of the discussion about them. In addition, it is typically the problem that ‘mainstream’ work seems to ignore issues of significance which are championed by those who take less-mainstream positions. Consider, here, the way in which, from a classical liberal perspective, those in ‘mainstream’ positions ignore or misinterpret, say, Hayek’s work on knowledge and institutions (Boettke’s discussion here

is very useful). But, similarly, Marxists would typically say that important points concerning what their tradition has had to say about, say, ‘relations of production’ and their consequences, have typically been ignored by other scholars. (Consider the way in which many of those who take rational choice approaches in the social sciences, treat the social world as if it was an unstructured state of nature, rather than something crucially shaped by our prior history and interactions.) Contending programmatic ideas have a fully legitimate role to play in the academic world. But it is also vital that their proponents distinguish between their views as programmatic ideas, and what, in fact, they have been able to achieve to date by way of explanations, as compared to the achievements of those who favour competing views.¹⁵

We need, within any discipline, to move towards a form of the social organization of knowledge in which, as distinct from the different (and I would stress again, fully legitimate) programmatic ideas by which people may be influenced, to having a deliberate effort made to create a picture of the range of ideas concerning which there is a broad consensus that they are significant, and of the ongoing state of the debate about them. This would serve as a focus for the work of scholars within the discipline, not least as giving an indication to those who wish to develop competing ideas what the existing problem-situation in their discipline is with which they have to engage. It would also give an indication to people in other disciplines what the (current) picture is, of what they need to take account if they wish to draw on ideas from the discipline in question.

BEYOND SPECIFIC DISCIPLINES

It is not of importance just for specific disciplines that such ideas be developed, and, if these ideas should prove acceptable, existing institutions be reformed. For it is to such ideas—e.g. in economics—that a body such as the Supreme Court (whether in its existing form, or in the kind of version that, it would seem to me, would be needed if Hayek’s ideas about the revision of the law were to be put into practice¹⁶) would need to have recourse, if it were wishing to engage in piecemeal reform of the law on the basis of economic ideas.

Such things are also important, more generally. Consider our ideas about people’s rights. In the broadest of terms, one lesson that we can draw from recent scholarship about the understanding of rights in the Seventeenth and the Eighteenth Centuries, is that the main tradition of Protestant ideas about ‘natural jurisprudence’ developed ideas

about rights in the context of ideas about duties to God, in part drawn from Scripture, in part from what at the time seemed obvious.¹⁷ Rights were things which people were understood to possess, so that they could discharge such duties. Further, as Jerome Schneewind stressed in his classic ‘The Divine Corporation and the History of Ethics’,¹⁸ it was believed that God had arranged things so that, if people developed their ideas about rights correctly, and acted on the basis of them, the result would also be the generation of a well-functioning social order (unintended by them, but not by God).

Such ideas clearly left their mark up to the time of the American founding.¹⁹ But most of us would typically now think that issues about the inter-relationship between what gets recognised as a right (and in what form), and what makes for a desirable social order, is very much in human hands. But from such a perspective, our understanding of social theory will play a key role. Consider, in this context, the debate about trade in grain that took place in Europe in the Eighteenth Century. As Hont and Ignatieff (1983) have argued,²⁰ this played an important role in the formation of Adam Smith’s views, and in particular, in his rationale for the dropping of the idea—which, for example, one finds in Locke—that people have a right to subsistence from the surplus of others.²¹ Another striking example of this kind of argument from social theory to ideas about rights, is offered in Hayek’s criticism—which seems to me devastating—of the *U. N. Declaration of Human Rights*, in his Appendix to Chapter 9, ‘Justice and Individual Rights’, to volume 2 of *Law, Legislation and Liberty*. In this, Hayek argues that a key problem about the U. N. system, was that it was a political compromise between people who favoured different social orders, and that, as a result, they ended up including some rights which—depending on which of the two systems one favoured—made no sense. To offer such criticism—to say nothing of the kind of criticism of the inflated lists of ‘human rights’ which are so popular as I write—seems to me to depend on our having to hand a broad conception of what the key structural features of our current social system amount to (as well as a similar conception of what kinds of changes to this are and are not feasible, as things stand). But this is something that, as far as I can see, needs to be deliberately worked towards, rather than something that ‘spontaneously’ arises from the operations of our current system of the organization of academic knowledge.

A second and rather different problem, is exemplified by the report upon Trump’s White House to which I referred,

earlier. For one needs, in addition to a deliberate effort in any particular discipline or problem-area to collect together what, tentatively, we can agree upon (not least so that it can, then, be submitted to criticism), but also that we recognise the appropriate social authority of experts, in the context of the division of labour. This, obviously, does not mean that experts must be assumed to be correct. But if we are not a specialist in a particular field, we need to be able to recognise those who are, and then—if we stand in need of information—to ask them to explain not just their own views, but the current state of the debate in the field in which we are interested, something which we can cross-check with others. The problem with Trump, in the area referred to in the quotations, seemed to me to be that having appointed someone who was competent, he did not then seem willing to take criticism from him of his own intuitive ideas, or to accept instruction from him about the field in question.²² (Of course, what is needed is someone who is both knowledgeable but also well-informed about, and able to offer a fair picture of, the state of play in the field in question: something that it is important that we cultivate.) This problem seems to me to be becoming increasingly ubiquitous with the development of social media, which by design serves simply to reinforce people’s prejudices, and also when people put their expertise up for sale in settings where it is removed from scrutiny by their professional peers.²³

Here I think that it would be useful to look again at the ideas of that much-neglected classical liberal thinker, Harry Burrows Acton (1974). I have in mind here some of the views that he set out in his published lecture, *The Idea of a Spiritual Power*. His concern in this was not with religious ideas but, rather, with the institutionalization of our best ideas, a theme that he traces through Saint-Simon, Coleridge and John Stuart Mill. (Mill—the author of the fallibilist *On Liberty*—stressed the importance of the liberty of discussion; but—he was also concerned with our problem: it lies behind his not particularly felicitous ideas about plural voting for those with university degrees in his *Representative Government*.) The problem—which if what I have argued here is correct, is very much that of the Hayekian, and which more generally faces us particularly strongly today—is that the connection between the worth of ideas and their social influence seems to have broken down dramatically. It is this—along with what seems to me a marked failure on the part of those most concerned with policy-making to address some of the key issues which face people today²⁴—which has opened our political system up to populism. And it is this which makes me uneasy about Boettke’s

joining in the criticism of elites, rather than engaging in a project for their reform. One of our key problems, I'd have thought, is in fact to try to reconstruct the role of elites in our society, in such a way that our best—but, obviously, fallible—knowledge can exercise significant influence both within academic disciplines but also more generally in society, and by means of mechanisms which don't sacrifice our liberty, or simply open us to domination by other people.

All this may seem strange. But on the basis that I have indicated briefly in this short paper, it seems to me a direction in which we have to go, if we are to do justice to the full range of issues opened up by Hayek's work. If I am right, to address this issue is surely a challenging—but also, in consequence, an exciting—task.

NOTES

- 1 Recall in this context just how contentious Hayek's understanding of the rule of law has been argued to be, e.g. by the legal scholar Joseph Raz (1972). Hayek, it should be said, has been explicit about his championing of the rule of law as it was understood in the Kantian *Rechtsstaat* tradition, and I would agree that this is of particular importance both for economic purposes, and in terms of the liberty of the individual. But the distance between this and what other scholars with expertise in the field understand by the rule of law, serves to emphasise the point that I am making in my text.
- 2 Compare Caldwell (1988). See also Sheamur (1987, 1996).
- 3 See, on this, Sheamur (2018).
- 4 I have discussed this at some length in Sheamur (1996).
- 5 Compare the important issues opened up in Hayek (1954).
- 6 I say 'most' because some strands in his work—e.g. the 'Epilogue' to *Law, Legislation and Liberty* volume 3 (Hayek 1979), and *The Fatal Conceit* (Hayek 1988)—develop his ideas in ways which may be difficult to square with the more 'critical rationalist' strand in his work, to which I am here referring.
- 7 It is important to note that Hayek uses the term 'evolution' in the loosest of ways; recent efforts to criticize him by showing that his views don't fit specific models of evolution to which he sometimes refers (and which, as in the case of 'group selection' are clearly problematic), don't seem to me to make much impression on his underlying argument. At the same time, the weakness of what he is claiming (as is also the case for Hume on the development of ideas about justice), needs also to be noted.
- 8 It is worth bearing in mind Plato's concerns about the possible corruption of his guardians, and the highly distinctive institutions which he suggested as possible ways of dealing with this.
- 9 There is obviously an issue about the inter-relation, in Hayek, between an acknowledgement of the importance of such theoretical knowledge, and his concerns about the desirability of what one might call an uncritical faith in inherited institutions. But this is an issue which can't sensibly be tackled in a paper such as this.
- 10 Boettke, p. 58 refers to James Buchanan and Richard Wagner's *Democracy in Deficit* (1977, ch. 6), who quote R. F. Harrod (1951), pp. 192-193.
- 11 I have in mind, here, not just the efforts of FEE, IHS and many other bodies, but also the work of GE, which has been documented in such an interesting way in Evans (2006).
- 12 It is, here, striking just how ineffectual conservative, libertarian and conservative religious groups and individuals—who have been significant sources of funding for higher education—have been in the creation of institutions which reflect their concerns. The story of how foundations set up by wealthy individuals with strong classical liberal concerns have been diverted to other purposes is a particularly sad one. While Marsden (1994) tells a striking story of the loss of influence of traditional Christian ideas within what were initially often explicitly religious-based foundations.
- 13 Clearly, there is also, here, the issue of what views should inform such reform and their social institutionalization—but I will not pursue this here!
- 14 There is also a body of work to which Boettke refers, notably Roger Koppl's *Expert Failure* (2018), which discusses other work to which Boettke refers in greater detail than it was possible for Boettke to do in his Hayek. See also Desch (2019). I cannot even attempt to do justice to the range of issues raised in this work, on the present occasion.
- 15 See, for this approach, Sheamur (1996), especially chapter one, and Sheamur (2010).
- 16 I have argued for this in what is as yet unpublished work.
- 17 Compare, for example, Knud Haakonssen (1996) and T. J. Hochstrasser (2000).
- 18 Included, for example, in Schneewind's *Essays on the History of Moral Philosophy* (2010).
- 19 Compare, in this context, the U.S. Declaration of Independence.
- 20 See, on this, their "Needs and Justice in the Wealth of Nations: An Introductory Essay." See, also, my discussion in Sheamur (1996).
- 21 See John Locke, *Two Treatises of Government*, First Treatise §42; compare Peter Laslett's edition, p. 170.

- 22 It is perhaps worth noting that, in the light of this, the problem addressed by Milgram (1974) in his *Obedience to Authority*, seems to me in some ways misconceived. For in a society of any sophistication, we have to depend on the authority of those with specialized knowledge, and in ordinary social situations this means relying on those bearing the appropriate marks of authority. If, say, a building is burning, we need to rely on what we are told by those who are dressed in firefighters uniforms, and so on. This does not mean that they are infallible, that there might not be occasions on which it would be right for a lay person to question them or to disobey them, or, indeed, that there should not be heavy punishments for those who pretend to authority that they do not, in fact, possess. There is also a crucial need for institutions which allow for the possibility—outside of a particular emergency situation—of the critical questioning of existing policies and “knowledge.”
- 23 It seemed to me that it was this latter problem which was the starting-point of Roger Koppl’s (2018) interesting work in his *Expert Failure*, while just how problematic the structuring of information by Facebook etc is, is brought out if one compares what is said in passing about the structuring of information by Facebook in Roger McNamee’s (2019) *Zucked*, with Popper’s (1963) account of some basic epistemological issues in his “On the Sources of Knowledge and of Ignorance” and “Science: Conjectures and Refutations.”
- 24 I will not burden what is already an over-compressed paper by discussing the substance of this here. But it is striking that Robert Putnam (2015) and Charles Murray (2012) offer similar diagnoses of some of our current problems, while Mark Lilla (2018) and John Sides et al. (2018) indicate what is problematic about how these issues have been recently approached. A similar story, it seems to me, can be told about problems of climate change and large-scale migration.
- Haakonsen, K. 1996. *Natural Law and Moral Philosophy*. Cambridge: Cambridge University Press.
- Harrod, R. F. 1951. *The Life of John Maynard Keynes*. London: Macmillan.
- Hayek, F. A. (ed.) 1954. *Capitalism and the Historians*. Chicago: University of Chicago Press.
- _____. 1979. *Law, Legislation and Liberty*, Vol. 3, *The Political Order of a Free People*. Chicago: University of Chicago Press.
- _____. 1988. *The Fatal Conceit: The Errors of Socialism*. In: Bartley, W. W. III (ed.) *The Collected Works of F. A. Hayek*, Vol. 1. Chicago: University of Chicago Press.
- Hochstrasser, T. H. 2000. *Natural Law Theories in the Early Enlightenment*. Cambridge: Cambridge University Press.
- Hont, I. and Ignatieff, M. 1983. Needs and Justice in the Wealth of Nations: An Introductory Essay. In: Hont, I. and Ignatieff, M. (eds.) *Wealth and Virtue: The Shaping of Political Economy in the Scottish Enlightenment*. Cambridge: Cambridge University Press, pp. 1-44.
- Koppl, R. 2018. *Expert Failure*. Cambridge: Cambridge University Press.
- Lilla, M. 2018. *The Once and Future Liberal*. London: Harper.
- Marsden, G. M. 1994. *The Soul of the American University*. New York: Oxford University Press.
- McNamee, R. 2019. *Zucked: Waking Up to the Facebook Catastrophe*. New York: Penguin.
- Milgram, S. 1974. *Obedience to Authority: An Experimental View*. New York: Harper and Row.
- Murray, C. 2012. *Coming Apart: The State of White America*. New York: Crown Forum.
- Popper, K. 1963. *Conjectures and Refutations: The Growth of Scientific Knowledge*. London: Routledge.
- Putnam, R. 2015. *Our Kids: The American Dream in Crisis*. New York: Simon & Schuster.
- Raz, J. 1972. The Rule of Law and Its Virtue. In: Cunningham, R. L. (ed.) *Liberty and the Rule of Law*. College Station: Texas A&M Press, pp. 8-21.
- Runciman, D. 2019. *Where Power Stops*. London: Profile.
- Schneewind, J. B. 2010. *Essays on the History of Moral Philosophy*. Oxford: Oxford University Press.
- Shearmur, J. 1987. *The Political Thought of F. A. Hayek*. University of London, Ph.D. thesis.
- _____. 1996. *Hayek and After: Hayekian Liberalism as a Research Programme*. London: Routledge.
- _____. 2010. Why the ‘Hopeless War’?: Approaching Intelligent Design. *Sophia*. 49 (4): 475-488.
- _____. 2018. Hayek and the Methodenstreit at the LSE. *Globalizations*. 15 (7): 1033-1044.
- Sides, J., Tesler, M. and Vavreck, L. 2018. *Identity Crisis: The 2016 Presidential Campaign and the Battle for the Meaning of America*. Princeton: Princeton University Press.

REFERENCES

- Acton, H. B. 1974. *The Idea of a Spiritual Power*. London: Athlone Press.
- Buchanan, J. M. and Wagner, R. E. 1977. *Democracy in Deficit*. New York: Academic Press.
- Caldwell, B. 1988. Hayek’s “The Trend of Economic Thinking”. *The Review of Austrian Economics*. 2 (1): 175-178.
- Desch, M. 2019. *Cult of the Irrelevant*. Princeton: Princeton University Press.
- Evans, T. W. 2006. *The Education of Ronald Reagan*. New York: Columbia University Press.
- Griffiths, S. 2014. *Engaging Enemies: Hayek and the Left*. New York: Rowman & Littlefield.

Response

PETER J. BOETTKE

George Mason University
Email: pboettke@gmu.edu
Web: <https://www.peter-boettke.com>

First, let me express my gratitude to Mikayla Novak for organizing and editing this symposia, and the very warm and generous remarks in the introduction on my book, *F. A. Hayek: Economics, Political Economy and Social Philosophy*, and to the various contributors who not only took great care in reading my book, but also in crafting their criticisms and suggestions for improvements in terms of my own exposition, or different directions the project could have been pursued. In so many ways I found myself agreeing with the identified weaknesses and even the promise of the alternative directions. For my sins of omission, as well as my sins of commission, that have been identified by my readers, I can only ask for forgiveness and promise I will try to do better.

Second, I would like to stress that I wrote this book with a particular audience in mind—namely, contemporary students of economics that are hoping to pursue a career in academic economics and/or political economy. Hayek was an interdisciplinary scholar, and I aspire to be one myself, but like what I suggest about Hayek as being an economist at the end of the day, I am bound (for good and bad) to my disciplinary training and professional interest in modern scientific economics and scholarship in political economy. Furthermore, like Hayek, I am frustrated with the practice of the discipline, and believe that the accumulated intellectual capital that was built up during the classical period and into the early neoclassical period has been largely squandered due to a set of deep philosophical errors that have impacted the disciplinary practice. Excessive formalism combined with excessive aggregation, wrapped in a package of excessive empiricism, resulted, in my interpretation, in an unhealthy alliance between statism and scientism to the detriment of the scientific and scholarly practice in the related but distinct disciplines of economics and political economy. In Hayek's Nobel Lecture, he expressed his concern that unless we address this philosophical error, we would not only cause a loss of this scientific and scholarly capital accumulated from the practice of political

economy during its finest hours, but also threaten to turn modern practitioners into potential tyrants over their fellow citizens and destroyers of the very civilization that political economists had helped to build. Once again, as readers of my book (and my other works will not be surprised) I am in profound agreement with Hayek on this. So, there is an urgency in my quest to understand the human condition via the disciplinary framework of economics and political economy. Sometimes that sense of urgency fuels my curiosity, but at other times, perhaps it fuels my zealotry.¹ I do work hard to try to tame the latter, and embrace the former, but I am certainly not so self-unaware to claim that I never fall short of the ideal scholarly values I so aspire to reflect. Israel Kirzner remains my model of how one should behave in this business. I am woefully aware of my shortcomings in this regard, but like with research itself, view me as a work in progress.

This has consequences as my shortcomings might sometimes appear in the form of missing different sides of an argument that I should perhaps been more attentive to, or failure to pursue an angle that might from a different perspective be judged as more productive. Buchanan taught me early in my career about the benefits of looking through different “windows”. But the reality is that you cannot look through all the different windows at once, or at least I cannot, and so we are forced to choose which window we will look through on *this* or *that* occasion. The fact is, I do take criticism seriously, but that for me has meant that I need to grapple with those issues in my next project. The other important lessons I learned from studying with Buchanan concerned with how to build a productive academic career was that one must come to grips with the reality that we are not in the business of writing down *the* definitive argument for all time. All academic work, is work in progress. And, don't get it right, get it written. And finally, thinking without writing is day-dreaming. So, bottom line, each of my commentators provide me with material that must be pursued down the road in the next effort to clarify Hayek's

project and what it means for the way we practice economics and political economy in our age, and against this particular historical context. And for that, as well as the care and effort they put into grappling with this effort of mine to understand Hayek's project, I am truly grateful.

Adam Martin makes a wonderful observation that is relevant in this discussion when he points out "Writing a book about economics is itself an economic act: it involves tradeoffs and scarcity." This is particularly relevant, I'd argue, in this context. Because Hayek was a scholar who roamed so widely, in trying to make sense of his roaming for a project that impresses on his core, I sought to find a coherent thread. To me, that coherent thread was in Hayek's explorations of the *institutional infrastructure* within which social life (including commercial life) takes place. And, in particular, his explanation of how alternative institutional arrangements impact on our human capacity to realize social cooperation through specialized production and mutually beneficial exchange. While not denying the impact on the structure of incentives that human actors face in making decisions that are produced by the relevant institutions, Hayek's unique emphasis was on how these alternative institutional arrangements served as the background to the discovery, utilization, dissemination, and continual updating of the *relevant knowledge* that human actors need to pursue their interests in an effective manner. In short, Hayek asked us to think about how individuals *learn* the relevant knowledge so that they can coordinate their activities with others, in order to pursue the productive specialization and realize the peaceful social cooperation that is the underlying basis for the progress of civilization. I dub this in the book as Hayek's *epistemic institutionalism*. And this had the consequence of directing my message largely to an audience of practitioners and graduate students apprenticing to be practitioners of Rational Choice Institutionalism and Historical Institutionalism in the related but distinct disciplines of economics and political economy. Think Daron Acemoglu, not necessarily Sam Bowles or Herb Gintis; think Alberto Alesina, not Paul Davidson. This is *not* an ideological choice on my part, as Paul Lewis and Ted Burczak come close to suggesting. My conversation partners are selected on shared research focus on institutions and political economy, and my strong conviction that these leading practitioners of economics and political economy are not getting it quite right. They are still not quite getting Hayek's point about the contextual nature of our knowledge, and thus the social epistemology point about alternative institutions that I am emphasizing. Therefore, if we nudged that

more mainstream work in contemporary political economy in a more Hayekian direction it would yield significant results in our quest for understanding the human condition. My discourse effort is directed at works such as Acemoglu and Robinson's *Why Nations Fail* or their more recent *The Narrow Corridor* rather than the very impressive list of potential discourse partners that Paul Lewis provides in his commentary that I entirely miss in this book. Remember, we look through different "windows."

I might be wrong about that judgement, but that judgement in addition to my sincere belief that I have accurately described the arc of Hayek's professional career as an economist, political economist and social philosopher, contextualized it in his time, and identified a coherent theme that we can work with in our own work explains what I did in the book. I identified four distinct stages in Hayek's career – Economics as a Coordination Problem; the Abuse of Reason Project; the Restatement of Liberalism; and the Philosophical Anthropology of Man. I then try to explain the common theme that links all of these. I certainly underdeveloped my discussion of the fourth phase in his arc, and thus do not do justice to either the tensions in Hayek's project that Jeremy Shearmur correctly stresses, or the issues which David Prychitko asks me to consider concerning the philosophical anthropology of man. I have my own way of attempting to resolve the tensions, or at least ameliorate them, and working out the radical implications for social theory along the lines suggested by Prychitko but those need to be worked out in a far more sophisticated way than I have done to date. Again, all work, is work in progress.

One could identify a major glaring interpretative error, which is the following: rather than dividing Hayek's career into these four phases under the theme of epistemic institutionalism, one could just as easily and justifiably divide Hayek's career into two phases, the first being his early insistence on methodological dualism based on the divide between the human science and the natural science and his later being the methodological distinction between the sciences of simplicity and the sciences of complexity. Both Paul Lewis and Gerald Gaus prefer to move the conversation concerning Hayek and his contribution in that direction focusing on evolution and complexity. I completely agree that is a very productive direction. It is just not the conversation I was going to pursue in *this* book. But it is a conversation that should take place, and I will want to join that conversation at some future date, and hopefully at that time both Lewis and Gaus will see how much I have learned from their work and the work they favorably cite when I do.

Ironically, though, I am still enamored by the unique problems confronting the *human sciences*. Part of my methodological zealotry is due to a firm conviction that scientism kills scientific progress in the study of man. Fritz Machlup once famously quipped in addressing these questions --- what if matter could talk? His thought experiment had his readers acting precisely as a natural scientist, but then the subject of their studies started to talk back to them, to express desires, to form expectations, and to attribute meaning to social situations. In short, what if the “matter” in our studies refers to human beings? Roger Frantz in essence raises this question by linking Hayek to behavioral economics. My own view is that Hayek, like Carl Menger and Ludwig von Mises before him, and James Buchanan and Elinor Ostrom after him, can be productively understood as a rational choice theorist as if the choosers were human. Human beings are caught between alluring hopes and haunting fears, the very act of choice is an agonizing one, and standard utility maximizing subject to constraints simply doesn’t help us wrestle with human beings playing out the logic of choice and engaged exercises in situational logic. Institutional context always matters. We are fallible, but capable human actors. We are constantly adapting and adjusting to changing circumstances and thus in constant need for guideposts and “aids to the human mind” to steer our course toward peaceful social cooperation. *Human* economic life is not well captured in models characterized by smooth and continuous and twice differentiable functions. *Human* interaction in the marketplace is more about Smithian higgling and bargaining, than it is about Beckerian optimizing behavior and Arrovian equilibrium states. We must, as economists, not only respect the subjective valuations and expectations of the creative and clever human beings we set out to understand in our analysis, but also account for the political, legal and social context within which they transact with one another and form relationships with one another if we hope to make any progress in our quest to understand the human condition. Hayek knew this, Paul Samuelson didn’t. Economics went one way, and I am trying to use Hayek to pull it back in another direction of research and teaching. Adam Martin ingeniously, to my mind, lays this out in his comments with some very useful diagrams that readers should focus their attention on, and think long and hard about. There is only good economics and bad economics, as Milton Friedman taught, but good economics isn’t the empiricism of Friedman or the formalism of Samuelson. Instead, it is to be found in the mainline of economics from Adam Smith to F. A. Hayek.²

Mainline economics developed alongside the evolution of liberal institutions of governance. This is a point I make in the book, drawing on the work of Lionel Robbins. And the book does strive to move from technical economics through to timeless puzzles in the political economy of liberalism. The central puzzle with which it is wrestling is the predatory propensity of men in the private and public sector. Ted Burczak, by invoking John Kenneth Galbraith successfully to my mind, moves questions of persuasion and power to the forefront. This demands an examination of countervailing forces in the private and public sector. I do not in my work spend enough time on potentials for abuse of power in the private sector, and that is a weakness that I must address in the future, not so much in understanding Hayek, but in getting a fuller appreciation of the liberal project for our time. The first real professional paper I ever wrote was on Hayek and Galbraith, I thank Burczak for reminding me of the potential fruitful avenue that such a comparative analysis could provide.

Nick Cowen’s contribution to this symposium also puts in the forefront of analysis questions of justice. Buchanan taught us, again, that the theory of justice was the critical missing element in the nineteenth century classical economists which resulted in their vulnerability in intellectual discourse with socialist thinkers. We must, he told us, develop a coherent theory of justice if we hope to develop an argument for the “good society.” Those of us persuaded by Hayek’s critique of social justice should not be content with that negative analysis, but must offer our own picture of the agenda and non-agenda of liberalism for our time. Cowen is building those bridges from Hayek to contemporary political theory. Stefan Kolev raises the issue of the institutional infrastructure in the liberal order in the age of digitalization. He stresses not only the great expansiveness of the new globalized economy due to modern technology, but the speed with which the pressure felt due to globalization is experienced in local communities. Again, truly fascinating issues that deserve full treatment and development. Very promising directions. If my book truly could be said to have stimulated thought in these new directions in economics and political economy, then it will have done its job. My purpose in writing the book, let’s remember, was to (a) accurately capture Hayek’s intellectual development throughout his career from the 1920s to the 1980s; (b) to identify a common-theme in that work that unites his efforts over time and across disciplines; (c) to achieve (a) and (b) by synthesizing the questions “does economics have a useful past?” and “does the past have a useful economics?”

both to which I answer in the affirmative using Hayek as the case study demonstrating the productivity of those answers; and (d) to draw out the implications of Hayek’s intellectual journey for political economy and social philosophy. If I achieved (a) through (d), then it is my hope that the reader will be prepared to join me in not only our quest to understand the human condition, but to engage in the active reimagining and reconstruction of the cosmopolitan liberal project for our time.

Let me conclude by once again thanking all of my commentators. Their comments were so rich that my task of responding in any detailed manner to any of them was impossible. I hope readers will take their points and run with them, as I believe there are so many very productive directions they point to. I believe this symposium is a great demonstration that Hayek studies is not only alive and doing well, but that it can serve as a catalyst for a renewal of research efforts beyond Hayek and generate new thinking in the contemporary practice of economics, political economy and social philosophy.

To Doctor Novak and *Cosmos + Taxis*, let me just end by once again saying — THANK YOU.

ACKNOWLEDGMENTS

I would like to acknowledge the comments and criticisms on an earlier draft of this response by my colleagues Rosolino Candela, Chris Coyne and Virgil Storr. The usual caveat applies.

NOTES

- 1 This zealotry, I would insist, is not ideologically, it is primarily methodological and analytical with social philosophical implications.
- 2 I have defined mainline economics on several occasions, but sometimes folks think is just a designation I came up with to list individuals I like rather than any coherent intellectual thread. Again, I disagree vehemently with this characterization. I have been very specific through the years—mainline is the substantive propositions of core economic theory from Adam Smith onwards, mainstream economics is what is currently scientifically fashionable at any time as reflected in the top five journals and top five departments as conventionally ranked. The central substantive proposition of mainline economics is the “invisible hand”, and my argument has always been that what separates mainline economists apart is that they all derive the “invisible hand” proposition from the rational choice postulate via institutional analysis. Any methodological or analytical move that draws our scientific attention away from this central proposition must be challenged. Gaus’s discussion in his commentary on the “invisible hand” is a very interesting direction in which evolutionary and complexity models might capture the institutional emphasis I am stressing in a more persuasive manner than I have pursued.

Editorial Information

AIMS AND SCOPE

COSMOS + TAXIS takes its name and inspiration from the Greek terms that F. A. Hayek famously invoked to connote the distinction between *spontaneous orders* and *consciously planned orders*.

COSMOS + TAXIS offers a forum to those concerned that the central presuppositions of the liberal tradition have been severely corroded, neglected, or misappropriated by overly rationalistic and constructivist approaches. The hardest-won achievements of the liberal tradition has been the wrestling of epistemic independence from overwhelming concentrations of power, monopolies and capricious zealotries. The very precondition of knowledge is the exploitation of the *epistemic* virtues accorded by society's *situated* and *distributed* manifold of spontaneous orders, the DNA of the modern civil condition.

COSMOS + TAXIS is a joint initiative run under the auspices of the Department of Pathology and Laboratory Medicine at The University of British Columbia and the Political Science Department at Simon Fraser University. All content is made freely available.

COSMOS + TAXIS is not committed to any particular school of thought but has as its central interest any discussion that falls within the *classical* liberal tradition as outlined above.

COSMOS + TAXIS publishes papers on *complexity* broadly conceived in a manner that is accessible to a general multidisciplinary audience with particular emphasis on political economy and philosophy.

COSMOS + TAXIS offers a forum distinctively engaging the growing confluence of interest in situated and distributed liberalism emanating from the Scottish tradition, Austrian and behavioral economics, non-Cartesian philosophy and moral psychology, philosophy of social science, social epistemology, and political philosophy.

COSMOS + TAXIS invites submissions on a wide range of topics concerned with the dilemma of upholding ethical norms while also being mindful of unintended consequences.

COSMOS + TAXIS publishes a wide range of content: refereed articles, topical issues and book symposia, though to moderated discussion articles, literature surveys and reviews. If you'd like to make a thematic proposal as a guest editor or suggest a book review, please contact the managing editor.

Books for review should be sent to:

Laurent Dobuzinskis
Department of Political Science
Simon Fraser University
AQ6069—8888 University Drive
Burnaby, B.C.
Canada V5A 1S6

<http://cosmosandtaxi.org>

SUBMISSIONS

Submitting an article to COSMOS + TAXIS implies that it is not under consideration (and has not been accepted) for publication elsewhere. COSMOS + TAXIS will endeavor to complete the refereeing process in a timely manner (i.e. a publication decision will be made available within three months). All submissions should be in digital format, and emailed to: davidemanuelandersson@cm.nsysu.edu.tw

Papers should be double-spaced, in 12 point font, Times New Roman. Accepted papers are usually about 6,000-8,000 words long. However, we are willing to consider manuscripts as long as 12,000 words (and even more under very special circumstances). All self-identifying marks should be removed from the article itself to facilitate blind review. In addition to the article itself, an abstract should be submitted as a separate file (also devoid of author-identifying information). Submissions should be made in Word doc format.

COSMOS + TAXIS welcomes proposals for guest edited themed issues and suggestions for book reviews. Please contact the Editor-in-Chief to make a proposal: davidemanuelandersson@cm.nsysu.edu.tw

All business issues and typesetting are done under the auspices of The University of British Columbia. Inquiries should be addressed to the Managing Editor: leslie.marsh@ubc.ca

ELEMENTS OF STYLE

1. Submissions should be in English, on consecutively numbered pages. American, Canadian and UK spellings and punctuation are acceptable as long as they adhere consistently to one or the other pattern.

2. Citations should be made in author-date format. A reference list of all works cited should be placed at the end of the article.

The reference style is as follows:

Author, A. B. 2013. Title. *Journal*, 1(1): 1-10.

Author, C. D., Author, B., and Author, C. C. 2013. Article Title.

In: *Title*. City: Publisher, pp. 1-10.

Author, J. E. and Author, B. (Eds.) *Title*. City: Publisher, pp. 1-10.

Author, E. F. 2008. *Title*. City: Publisher.

3. All notes should be as end notes.

4. No mathematical formulae in main text (but acceptable in notes or as an appendix).

Please consult the latest issue of COSMOS + TAXIS to see a fully detailed example of the Journal's elements of style.

COSMOS + TAXIS acknowledges the generous support of the Lotte & John Hecht Memorial Foundation.

COPYRIGHT INFORMATION

COSMOS + TAXIS is licensed under a Creative Commons Attribution 4.0 International License. Beyond the standard "fair use" doctrine, reproduction of material in any other publishing modality requires permission to be obtained from the managing editor of COSMOS + TAXIS. Authors retain full copyright to their work and COSMOS + TAXIS retains copyright as a curated entity.

Design and typesetting: Claire Roan, UBC Studios,
Information Technology, The University of British Columbia.



COSMOS + TAXIS