You Can Take Hayek Out of Vienna...

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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 Nietzchean!" 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 2×2 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 school[2] 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 appraisement, 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.

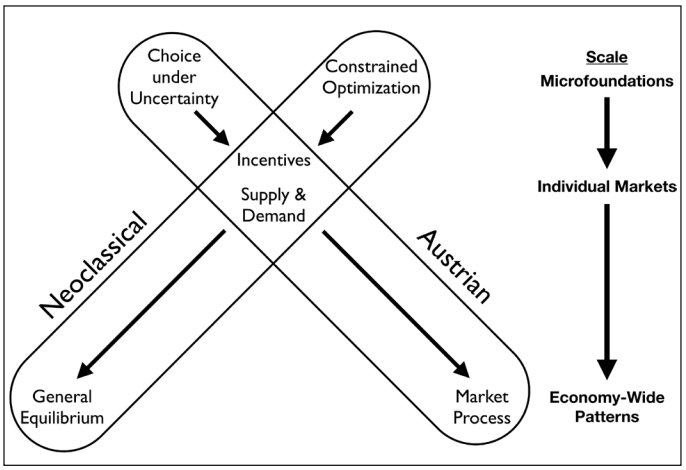

Figure 2: Austrian-Neoclassical Convergence and Divergence

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 nontestable, 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 and 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).

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