



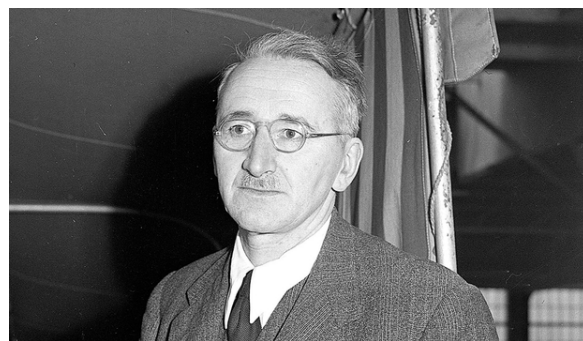
HAYEK'S EPISTEMIC LIBERALISM

*Peter J. Boettke, Professor of Economics and Philosophy at George Mason University, argues that is a common trope to claim that [F. A. Hayek](#) experienced a crushing defeat in technical economics during the 1930s. At the beginning of the decade, Hayek emerged in the British scientific community as a leading economic theorist. Yet by the end of the decade Hayek was supposedly defeated in his debate both with [Keynes](#) and with [Oskar Lange](#) and [Abba Lerner](#) over market socialism. However, this narrative reflects a fundamental misunderstanding of the teachings of economics from the classical to the early neoclassical economists. Economic life from [Adam Smith](#) to [J. S. Mill](#) never was treated as taking place in an institutional vacuum. Instead, law, politics, and social mores all constituted the institutional background against which economic life played out. As Boettke argues in the Lead Essay, 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* (1960) and *Law, Legislation and Liberty* (1973-79). Recognizing this aspect of Hayek's thought is a first step to recognizing his broader contributions to economic science and the art of political economy. Boettke is joined in this discussion by Steven Horwitz, the John H. Schnatter Distinguished Professor of Free Enterprise in the department of economics at Ball State University, Roger Koppl, professor of finance in the Whitman School of Management of Syracuse University, and Adam Martin is a Political Economy Research Fellow at the Free Market Institute and an assistant professor in the department of Agricultural and Applied Economics at Texas Tech University.*

HAYEK'S EPISTEMIC LIBERALISM

by Peter Boettke

It is a common trope to claim that F. A. Hayek experienced a crushing defeat in technical economics during the 1930s. At the beginning of the decade, Hayek emerged in the British scientific community as a leading economic theorist. From 1932 to 1950, Hayek was the Tooke Professor of Economic Science and Statistics at the London School of Economics (LSE), and along with Lionel Robbins spearheaded a perspective in economic science that challenged the dominance of economic thinking at Cambridge. Not only was the Marshall-Pigou hegemony challenged by the LSE economists, but the emerging new economics of John Maynard Keynes and his colleagues such as Joan Robinson and Richard Kahn was subjected to fundamental critique. Yet by the end of the decade Hayek was supposedly defeated in his debate both with Keynes and with Oskar Lange and Abba Lerner over market socialism.

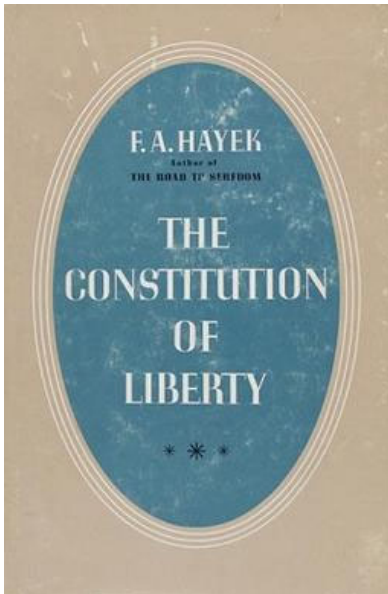


Friedrich von Hayek

As the Great Depression lingered throughout the decade and World War II broke out, Hayek lost his important ally Robbins to government work, and even his best students and his former junior colleagues, such as Lerner, G. L. S. Shackle, John Hicks and Nicholas Kaldor, all abandoned him intellectually. So the common trope of the "Hayek story" begins.

His crushing defeat was then followed by his abandoning technical economics and spending the rest of his career - - post-*The Pure Theory of Capital* (1941) - on philosophical speculations, political theory, psychology, law, history,

and an ideologically inspired social theory. It's true that colleagues and former students increasingly distanced themselves from Hayek's ideas in economics – so much so, in fact, that Hayek within a short time was almost forgotten as an economic thinker – and he did devote his writing primarily to those other areas. Compare the titles of his books in 1920s and 1930s – *Monetary Theory and the Trade Cycle* (1929), *Prices and Production* (1931), and *Profits, Interest and Investment* (1939) – to the titles from 1950 and forward – *The Counter-Revolution of Science* (1952a), *The Sensory Order* (1952b), *Capitalism and the Historians* (1954), *The Constitution of Liberty* (1960), *Law, Legislation, and Liberty* (1973, 1976, 1979), and *The Fatal Conceit* (1988). This does tell a story, as does Hayek's own repeated statement that while his interests were once purely technical, he was now drawn to broader questions in philosophy and social theory during the preparation of *Collectivist Economic Planning* (1935) and his subsequent debate with his colleagues at the LSE over socialist economic planning and market socialism.



However, this narrative reflects a fundamental misunderstanding of the teachings of economics from the classical to the early neoclassical economists. Economic life from Adam Smith to J. S. Mill never was treated as taking place in an institutional vacuum. Instead, law, politics, and social mores all constituted the institutional background against which economic life played out. Consider [Adam Smith's](#)

analysis of the behavior of professors in Oxford, who were paid from an endowment, and those in Glasgow who were paid from student fees. The professors' attentiveness to students differed dramatically not because – Smith postulated – the professors' character was different, but because of the *incentives* they faced under alternative institutional arrangements. "Incentives matter" has been a mantra of economists since the first systematic treatments in the discipline, and the structure of incentives that economic actors face is a byproduct of different institutional contexts. We must always remember that Smith argued that the only difference between the street porter and the philosopher resided in the mind of the philosopher. As my colleague David Levy likes to say, Smith was an analytical egalitarian. The basic approach of the analytic egalitarian is to insist on the symmetry of behavioral assumptions across institutional contexts, and to study the impact on human behavior of variations in that context. Same players under different rules produce different games.

Economic analysis flows from the recognition of scarcity and the fact that all choices are made within given constraints. For analytical tractability, the institutional context can be taken as part of the background constraints. Thus, during the first decades of the neoclassical refinements of economic theory, the analysis proceeded against a *given* institutional environment of fully defined and strictly enforced private property rights and freedom of contract embodied in the rule of law.

My point is simple: the classical political economists and the early heirs to that intellectual tradition saw economic activity as embedded within an institutional context and never as acontextual. In fact, it shouldn't have to be pointed out that Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* was an exercise in comparative institutional analysis of economic development, with the main contrast being between the mercantilist system of state-led development versus the system of natural liberty with its more trade-led model of development. Smith "derived" his famous "invisible hand" theorem from the self-interest postulate via *institutional analysis*.

It is relatively easy to see why, as economic theory went through technical refinements in the early 20th century and its critics tended to target the historical and institutional context, theorists sought to strive for an institutionally antiseptic theory. Math is math, after all. The relationship between averages and the marginal is true independent of whether we are talking about student test scores or the costs a factory faces. That relationship also holds whether we are talking about students and factories in China or in the United States. And it is true independent of the motivation of the different actors. The static optimality conditions of a competitive equilibrium possess this math quality. Profit-maximizing requires $MR = MC$; cost-minimizing requires production at the minimum point on the average cost curve, etc. All least-cost technologies must be deployed, and all opportunity costs in production and consumption must be taken into account. If so, all the opportunities for mutually beneficial exchange that could be pursued will have been pursued, and all technological efficiencies will have been realized. As the terms imply, the pattern of resource utilization will be *optimal*. Logic conquers historical context, and economic theory is indeed a science on par ontologically with any of the hard sciences, including physics. This understanding of economic theory transformed it from a branch of social philosophy to a new social physics, and the epistemological claims about economics transformed as well.

Mises had first issued the challenge that, due to the inability to engage in rational economic calculation, socialist planning could not deliver on its stated goals of rationalizing production and producing both a burst of productivity and harmony among the classes. What economic calculation achieves is the system's ability to sort out from an array of technologically feasible production projects those which are economically viable from those that are not. Economic calculation is a waste-identifier and -eliminator. By definition, the rationalization of production requires that the waste of resources be eliminated, and the consequences of rationalization of production in terms of a burst of productivity that will deliver man from the Kingdom of

Necessity to the Kingdom of Freedom -- such that class distinctions will disappear and harmony between men will reign -- also necessitates the elimination of waste and errors in the pattern of resource use. So Mises's criticism was decisive and cut to the core of the promise of [socialism](#).



Ludwig von Mises

This was also purely a point of positive economics. Mises did not question the socialists' ends. Socialism meant something at the time of his original article (1920) – the rationalization of production through the abolition of private property and commodity production. So Mises simply asked if abolition of private property and commodity production was coherent with respect to the rationalization of production, and he demonstrated it was not. Without private ownership in the means of production, there will be no market in those means, and without a market, no exchange ratios, or relative prices, will be established. Therefore, without relative prices, decision makers will be unable to engage in rational economic calculation. In short, decision makers will not know whether to build railroad tracks out of steel or platinum. Technological efficiency is not enough to answer the economic question of the efficiency of resource use. Prices without property are an illusion.

In an ironic twist of argument, [Oskar Lange](#) actually accused Mises of being an institutionalist for making this point. But the fact that Lange said this should alert you

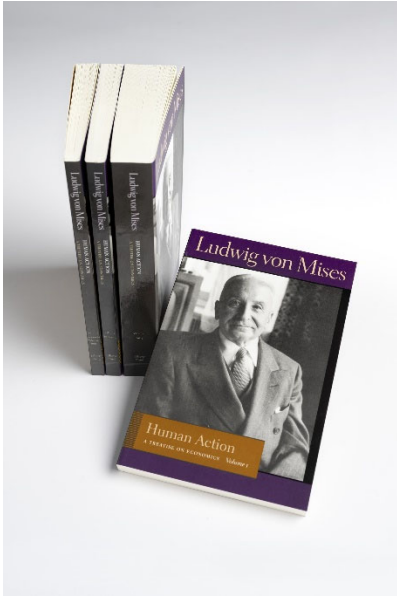
to the changes that were taking place in the economic theorist's self-understanding from 1900 to 1930. Since math is math and institutions don't matter, if someone invokes institutional differences to explain comparative performance, then he has failed to appreciate the universal nature of economic theory. But to Mises, it was precisely the universality of economic theory that enabled him to understand why institutions matter for economic performance. In addition to Mises's strict adherence to an analysis of the efficiency of chosen means to given ends in his analysis of socialism, he also assumed the best intentions on the part of all actors. This was necessitated by the dialogue at the time and also demonstrated the decisiveness of his critique. One of the oldest arguments in all of intellectual history, dating from at least Aristotle's critique of Plato, is that collective ownership will have perverse incentive effects on individuals in their decision making. Economists had made this incentive-based argument against various proposals for socialism for decades before Mises, and he was clearly aware of them, as any close reading of his 1920 article and 1922 book will reveal. But socialist thinkers had put forth a proposition that man's spirit would be transformed by the transformation of the material conditions of economic life. Man's more cooperative nature would emerge, and his base self-interested perspective would be pushed aside. To a socialist thinker who was working from this assumption, the old incentive-based argument would have no impact. That might have been true, they could reason, in a world of private property and commodity production, but in the world of collective ownership and rational economic planning, such questions of initiative can be dismissed. So Mises met his intellectual opponents on their turf and granted for sake of argument the assumption that these questions of motivation are irrelevant. The question Mises emphasized was how even the most-motivated and best-intentioned planners would be able to rationally plan the economy if they were unable to engage in rational economic calculation. They couldn't, he argued, and so they couldn't achieve what the advocates of socialism desired. They would have to abandon either their ends or their means to make the socialist project coherent. But if they abandoned their

ends, then what appeal would their social movement have? If they abandoned their means, then what would the term *socialism* mean? Either Marx's aspiration or his analysis must be abandoned, and perhaps both; but if both, then we are back to the aspirations and analysis of the classical political economists from Smith to Mill.

Hayek had a different set of arguments to contend with in the English-language debate of the 1930s than Mises had in the German-language debates of the 1920s. But they both faced the challenge of granting for sake of argument as much ground to their intellectual opponents as possible to show that the supposed answer to Mises's challenge was no answer at all. Like Mises before him, Hayek certainly was aware of and agreed with the incentive-based argument against socialist arrangements of economic affairs. But as with Mises, Hayek's intellectual opponents merely dismissed such criticisms as "psychological" concerns. Leaving aside the confusion in these thinkers between individual motivation and systemic incentives, the point for Mises and Hayek was to demonstrate to their opponents that even if one were to assume that economic planners were motivated only by the public interest and workers were willing to work for the good of society rather than their own narrow self-interest, rational economic planning would be impossible under socialism.

To counter the Mises-Hayek position, socialist economists attributed not only a sort of moral perfection to state actors (the public-interest assumption), but also an intellectual perfection. Economic planners were not just benevolent, but omniscient, and once these two assumptions were made, then clearly state planners could outperform erring entrepreneurs in the market. Planning would be the essence of rationality in the economic policy sphere. Mises and Hayek quickly responded in *Human Action* (1949) and *Individualism and Economic Order* (1948), respectively, but the main argumentative burden now fell more or less on Hayek in the eyes of his professional peers. Thus Hayek, beginning in the late 1930s, began to articulate his knowledge-problem critique of an array of policy proposals for social betterment. Unique to his approach was the close connection he drew between the

institutional context of economic activity and the knowledge that economic actors could discover, utilize, and communicate to others.



In "Economics and Knowledge" (1937), Hayek argued that while the pure logic of choice was a necessary component of any explanation of market clearing, it was not sufficient. What was required was an examination of how economic actors learn the relevant knowledge so they may coordinate their plans with one another and realize the gains from trade and innovation through the market. Hayek argued that this required an examination of how alternative institutional arrangements impact the social learning that constitutes the market and that ultimately this is an empirical project rather than a purely theoretical exercise.

In short, Hayek reasserted the basic claim that context matters. If you can imagine economic explanations as scissors, Hayek was claiming that one blade was the pure logic of choice and the other the circumstances of that choice. The explanation constitutes the logic of situational analysis. And since Hayek did not relax the public-interest assumption, the situational analysis had to focus on learning, or *epistemics*.

Whereas subsequent developments in the 1950s and beyond, such as law and economics, property-rights economics, and public-choice analysis, would emphasize the *incentive* issues associated with alternative institutional

arrangements, Hayek focused on the knowledge issues. Once this is understood, we see that Hayek didn't move away from economics in the decades after his disputes with Keynes and the market socialists. He was instead delving deeper into the *institutional* conditions that would permit the sort of mutual learning required for social cooperation under the division of labor and the complex coordination which constitutes a modern economy. The devil is always in the institutional details, and the mechanism is the mutual learning of opportunities for gains from trade and innovation, as well as the discovery of best ways to pursue those opportunities. Economic actors in the private sector as well as the public sector face a *knowledge problem*, and the institutional framework in each respective arena of social interaction provides answers to what we can learn, how we will learn, and who will learn. The market economy based on property, prices, and profit-and-loss solves the knowledge problem by alerting individuals to profit opportunities by guiding them in decisions through relative price adjustments and disciplining them through the penalty of loss. The underlying pattern of resource ownership provides the background, but it constantly changes as a reflection of the process of learning or failing to learn through market competition.

Politics is an entirely different learning mechanism, and to study politics from this knowledge-problem perspective requires that the theorist examine the *how*, *what*, and *who* within a context different from property, prices and profit and loss. Instead, we have voting, campaign contributions, bureaucracies, budgets, etc. Learning no doubt takes place, but what is learned, how it is learned, and who is learning are significantly different in politics than in the market.

The problem for economic policy that Hayek's challenge presented is that for the policy intervention to be "rational," it should achieve what the market could achieve if it operated ideally. We should be able to see some sort of "invisible hand" process at work in politics that will transform voter preferences into policy outcomes that serve the best interest of society as a whole. But if what is learned is not what would be

required for such an exercise in social alchemy, then the process will fall short on its own terms. Hayek gives us a tragic tale of government failure in his story of unintended and undesirable consequences in public policy. Of course, in the 1950s and 1960s the theory of government failure developed in public-choice analysis would stress the incentives faced by voters, politicians, bureaucracies, etc. But Hayek stood fast with the assumption of public interest and sought to demonstrate that the public interest could not be realized because the economic actors would lack the requisite knowledge to pursue the public interest even if they wanted to do so.

Liberalism to Hayek, therefore, must provide an institutional environment that unleashes the creative powers of individuals. He clearly understood this required that their initiative and ambitions be marshalled so that they would benefit the most by best satisfying the demands of others. But his challenge was to demonstrate that the institutions of governance in a liberal order could both provide the stable and predictable framework within which economic activity transpired and permit the adaptability and adjustments to constantly changing circumstances. It is this environment of constant learning that is the source of human improvement and flourishing. Adam Smith famously argued that the greatest improvements in the productive capacity of mankind were due to the expansion and ever-greater refinements in the division of labor. Hayek simply pointed out that the division of labor implies also a division of knowledge. Just as the private-property market economy provides the mechanism through which individuals realize productive specialization and peaceful social cooperation, this economy, with its constellation of relative prices and profit-and-loss accounting, guides decision makers, lures them in certain productive directions, and disciplines them when they go in other less-productive directions.



Adam Smith

Hayek never abandoned economics. He simply returned to his roots. Economic education in Vienna was situated within the law-school faculty. Hayek had the good fortune to study economic theory at one of the leading centers of economic theory of its time, and he began his career understandably working on technical economic problems. But the institutional framework was never far behind – whether that be law, politics, or social mores. Unfortunately, as economics evolved in the first half of the 20th century, this institutional background was forgotten and economists postulated theoretical worlds which left unexamined the institutional context of economic behavior and the administration of economic affairs in the public sector. 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*. Recognizing this aspect of Hayek's thought is a first step to recognizing his broader contributions to economic science and the art of political economy.

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MINDS AND MARKETS

by Steven Horwitz

Perhaps unsurprisingly, I find little to disagree with in Pete Boettke's summary of Hayek's "epistemic liberalism." I think Pete is correct to emphasize the role of knowledge in Hayek's version of liberalism, especially as it contrasts with the centrality of incentives in many other discussions of the advantages of the market and the liberal order more broadly. How Hayekians talk about prices and profits differs from many other economists' and liberals' emphasis on the role of prices and profits as surrogates for knowledge that enable us to coordinate our behavior. Prices and profits don't just serve as incentives to elicit the "right" choices. Moreover, prices are not valuable because they capture *all* of the relevant information that enables market actors to maximize utility or profits. Rather, prices are important because they serve as surrogates for

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the imperfect, contextual, and often unarticulated knowledge of other market actors. Prices are necessary not because they *solve* coordination problems by enabling everyone to know everything, but because they make possible *more* economic coordination than would take place in their absence. That is, rather than enabling us to reach the *state* of being in which we are able to access everyone else's knowledge, prices enable us to engage in the *process* of learning through their ability to

both inform our choices ex ante and provide us feedback about those choices ex post.

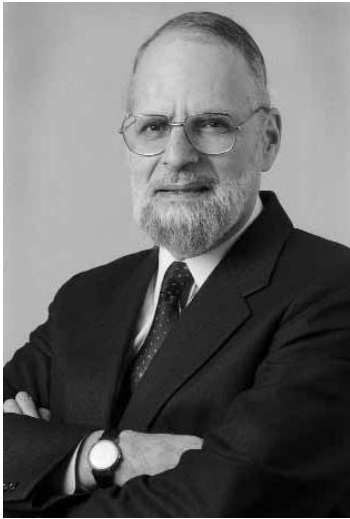
This emphasis on learning in Hayek is a theme that permeates his whole career. He grew up in a family of scientists, and one of his first, and eventually lifelong, fascinations was with psychology and the human brain. That interest was fully realized in *The Sensory Order*, his 1952 book on theoretical psychology (or the theory of cognition). However, that book's roots were in a 1920 paper in which he outlined many of the ideas that would form the core of his book 32 years later. And even after the publication of *The Sensory Order* (hereafter, TSO), Hayek continued to write about the issues it raised and their relevance for the liberal order. The lasting importance for Hayek of these questions about the brain, the mind, and how humans learn can help us see why his liberalism would have a distinct epistemic flavor.

There is much that could be said about the role of TSO in Hayek's system. Viktor Vanberg's long introductory essay (2017) to the *Collected Works* edition of the book does a masterful job in covering that ground. I want to focus on two points here that relate to Pete's argument, especially what he has elsewhere called Hayek's "epistemic institutionalism." The question concerns the role TSO might play in understanding how Hayek's social theory came to differ from the direction mainstream economics began to take between the world wars. The growing focus on equilibrium rather than market processes, and the increasingly behavioristic and positivistic method that came to define mainstream economics, were strongly at odds with Hayek's thought. His cognitive theory can help us understand the particular positions he took on both the substance of economics and the appropriate method for studying human action.

Summarizing the contribution of TSO is a challenging task. In short, Hayek argued that what we call mind is a system for classifying the external world in such a way that we are able to construct a model of that world which enables us to form reasonably reliable expectations about the way in which the world actually

works. Although all human beings are born with some common biological features and dispositions from our evolutionary past, much of the structure of our brains comes from our specific interactions with the world. The people we interact with, the languages we speak, and the situations we find ourselves in all contribute to forming the neural connections that determine how the brain classifies incoming sensory data and creates the model of the world that guides our expectations and actions. Hayek is clear to argue that those connections are contingent and therefore can change as we learn from experience what works and what does not. In this way, Hayek's theory of mind is a spontaneous order story: our minds are the unintended outcome of our interactions in the world, guided by the "profit and loss" signals of success and failure in accomplishing our goals. Importantly, Hayek argues that the mind can never fully understand itself, as understanding any classifying system requires a classifying system more complex than the one being understood. Therefore we are limited in our ability to understand the mind. At best we can offer an "explanation of the principles" by which mind operates, much in the same way that we cannot make specific predictions about events in the market, but only broad causal statements of the underlying laws by which it functions.

As Pete notes in his opening piece, it is in Hayek's 1937 article "Economics and Knowledge" that he first truly describes the market as a learning process. He asks the empirical question about how humans come to learn what others want and how best to provide it for them such that our expectations can become more consistent with each other. He also notes that this consistency of expectations includes not just our knowledge of "external events" but also of other actors' expectations.



Israel Kirzner

Within economics, this Hayekian question has been answered by Israel Kirzner's theory of the entrepreneur. Kirzner took the theory of the entrepreneur developed by Ludwig von Mises and demonstrated how it could answer this Hayekian question. The entrepreneur is alert to opportunities for profit and acts to exploit them. Having noticed that apples are selling for \$2 on one side of the street and \$4 on the other, the entrepreneur expects she can profit by buying them for \$2.50 and selling them for \$3.50. Trying out this set of expectations informs the \$2 sellers that their expectations about much they could get for their apples were mistaken, and it informs those buying at \$4 of their mistaken expectations about how little they had to spend to get apples. Entrepreneurs spread knowledge and, when they are successful, thereby correct errors and enable people to have more accurate expectations about the actions of others. This is how economics can describe the learning process of the market.

Within that emergent order of the marketplace is the emergent order of the minds that are engaged in this learning process. Hayek's cognitive theory (2017 [1952]: 240) stresses that we "live as much in a world of expectation as in a world of 'fact,' and most responses to a given stimulus are probably determined only via fairly complex processes of 'trying out' on the model the effects to be expected from alternative courses of action." Note the parallel to what the entrepreneur does. For Hayek, it's

learning and expectation formation and correction all the way down. His view that markets are learning processes rests on a foundation about how humans learn in all of the situations in which we find ourselves.

Where the liberal order comes in, as Pete rightly notes, is with respect to what sorts of institutions best facilitate the formation of these emergent orders in such a way as to promote human progress. That is, what sorts of economic, political, and social institutions give maximum scope to entrepreneurial alertness to discovery and error-correction? What sorts of institutions ensure that errors are knowable and that actors have at least partial information to correct them? What sorts of institutions reward error-correction that better coordinates expectations? What sorts of institutions give humans the ability to deploy their own knowledge in ways that are accessible to others? The institutional context matters for learning, and therefore for economic coordination and social progress. From minds to markets, epistemic questions are central for Hayek.

But there's a second element to his cognitive theory that's relevant for his epistemic liberalism. Hayek's theory of mind also provides, as Bruce Caldwell (1994) has noted, a scientific foundation for his subjectivism. In the last chapter of TSO, Hayek discusses the philosophical implications of his theory. There he says (2017 [1952]: 303), in response to the behaviorists, "The recognition of the fact that for our understanding of human action familiar mental entities must always remain the last determinants to which we can penetrate, and that we cannot hope to replace them by physical facts, is, of course, of the greatest importance for all of the disciplines which aim at an understanding and interpretation of human action." We cannot understand the social world without making use of concepts of perception, intention, goals, and preferences. That is, we must start our analysis with the subject's perceptions of the world. As Hayek says in *The Counter-Revolution of Science*, also published in 1952 (44, emphasis in the original): "So far as human action is concerned the things *are* what the acting people think they are."

It is not mere coincidence that Hayek published a book on theoretical psychology and a book on the method of the social sciences in the same year and in the wake of his perceived defeat in the debates with the market socialists and Keynes. In both debates it became clear to Hayek that his differences with his interlocutors were primarily epistemological and methodological. They had a different view of the nature of knowledge and how to engage in social science. *TSO* and *Counter-Revolution* constitute a two-pronged epistemic response to those debates. As Hayek reported in his 1977 retrospective on *TSO* (2017 [1977]: 384-5), it was during his work in the early 1940s on the essays that eventually became *Counter-Revolution* that he "had been driven both to rely in some measure on the results of my unpublished work in psychology and to think further about some of the problems with which I had dealt in it." That in turn led him to revisit those issues while writing *TSO*. The importance of *TSO* is that it provided a scientific response to those, such as the behaviorists and positivists, who said subjectivist approaches to the social sciences were unscientific. A correct understanding of human cognition indicates that we *must* make use of the "familiar mental entities" and take human perceptions and intentions as the starting point of our analysis.

To get people to grasp that markets are a learning process and that understanding markets requires a subjectivist economics, Hayek had to make this stronger epistemic turn in the 1940s. "The Use of Knowledge in Society" (1945) was the first step, as he made the case that key function of prices was epistemic. But that was not enough. *TSO*, along with *Counter-Revolution*, enabled him to make a more comprehensive argument for the nature of human learning and what that means for the doing of economics. Those projects also led to the institutional questions that are at the heart of Pete's opening essay.

If the twin processes of evolution and spontaneous order are learning processes, and if they are at work at every level, from the molecular to the mental to the market to large-scale biological evolution, then it is incumbent upon us to understand the conditions under which the evolutionary processes at work in the social world are

best able to contribute to human progress. That requires we recognize that these are, in fact, epistemic processes and that we must study them through the lens of social theories that start from the perceptions of individuals and how the institutional contexts in which humans choose determine the consequences of those choices. As Pete rightly notes, this is what pushed Hayek towards his study of the liberal order in his work in the 1960s and 70s. If human society is an emergent order of learning that rests on the emergent order we call mind, and if human progress depends upon maximizing that capacity to learn, under what institutional conditions will that potential best be realized? The answer to that epistemic question is the set of institutions that comprise the liberal order.

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DEFEATING HAYEK

by Adam Martin

Peter Boettke's essay provides vital logical and historical context for appreciating Hayek's contribution. Hayek's epistemic project led him to consider the institutional background of economic activity, not to abandon economics. And the project remains incomplete. The most popular contemporary economics textbook, Greg Mankiw's *Principles of Microeconomics*, only has three index entries for "property rights," each pointing to a brief passage: one arguing that government is necessary to provide them (pp. 10-11), another about patents in industrial policy (p. 209), and the last at the end of his discussion of common-pool resources (p. 237). While Mankiw's textbook is quite good overall, it gives short shrift to the very rules that *constitute* markets. Until the institutional setting of market activity again occupies the foreground of economics research and education, Hayek's counter-revolution remains incomplete.

Since Boettke's essay is not only correct but also important, I want to examine two argumentative strategies against Hayek's approach that are common in the literature. The particular works I have chosen are exemplary both in that they embody these anti-Hayekian arguments and that they are sophisticated and powerful pieces. Nonetheless, as is clear from the groundwork Boettke lays out in his essay, they both fail in their attempt to defeat Hayek.

Strategy 1: Defeating "Arrow"

First, consider Jack Knight and Samuel Johnson's *The Priority of Democracy* (2011). The main thrust of their book is that democratic institutions deserve *prima facie* priority over other types of institutions because they are *reflexive*. Democratic debate allows us to critically examine the quality of the institutions that shape the various spheres of our social lives and to reform those institutions

deliberately. Because of this possibility, there is a presumption in favor of democracy over other institutional forms, including markets. Not everything should be democratic, but democracy should determine its own boundaries. Along the way they offer some compelling arguments. But early in the text, Knight and Johnson recognize that they have to grapple with Hayek (pp. 52-55). Hayek's work seems to create a presumption in favor of *decentralized* institutions (such as markets and federalism) rather than mass deliberation.



Friedrich von Hayek

Unfortunately, they don't actually grapple with Hayek. Instead, they grapple with (a caricature of) Kenneth Arrow (pp. 55-61). Their argument against the priority of markets is simply a rehash of the possibility of market failure in standard neoclassical theory. In neoclassical theory, markets "work"—they achieve efficiency—under certain conditions, such as (but not limited to) the perfectly competitive equilibrium that market socialists appealed to. The classic treatment of these conditions is in Arrow's work. And it is easy to imagine deviations from these conditions that generate inefficiency.

Formally, these claims are correct. But they are irrelevant as a critique of Hayek, because his theory of markets is not the same as that of neoclassical economists. In fact, Hayek strongly criticizes using perfect competition as a benchmark for understanding how real markets operate.^[1] Though the name comes later, the "market

process theory" of Menger, Mises, Hayek, and later Kirzner differs in crucial respects from the standard neoclassical theory. Market-process theorists tend to focus on the dynamic coordination of economic activity through time rather than the static efficiency of snapshot equilibria. And the economic problem is understood as discovering new knowledge and adapting to change rather than allocating given means among given ends. So a critique of Hayek based on the possibility market failure misunderstands both (a) how he thinks markets work and (b) why he thinks they are valuable.



Carl Menger

Strategy 2: The Nirvana Fallacy

More recently, Samuel Bowles, Alan Kirman, and Rajiv Sethi (2017) have recently taken issue with Hayek's general policy stance in the *Journal of Economic Perspectives*. They are not wholly critical: they sympathize with and offer additional support for Hayek's critique of equilibrium theory. Bowles et al. are careful to distinguish Hayek's market-process theory from a standard neoclassical approach and relate it to various advances in agent-based modeling and information economics. But they argue that Hayek's theory, while powerful, does not justify his defense of "*laissez-faire*" policies. Markets operating in an open-ended, dynamic theory can internally generate bubbles and economic crises. Individuals acting on their own peculiar knowledge of

time and place may contribute to chaos rather than coordination.

A deeper dive into the particular models and experiments that Bowles et al. cite might reveal some important differences with Hayek's approach. But the general trajectory of their argument in fact provides some Hayekian reasons to doubt the efficacy of markets for securing coordination. It is a strong piece that merits careful reading. Nonetheless, their critique fails because it offers only a cursory nod to the institutional setting of market activity.^[2]

Hayek's argument in favor of a strong presumption for market institutions is both epistemic and comparative, as Boettke's essay makes clear. These two features of Hayek's vision go together. "The mind can never foresee its own advance" (Hayek 1960, p. 75). How can a social scientist understand a process of social learning, since by definition learning means uncovering hitherto unknown knowledge? Just as we study choice: by analyzing its institutional antecedents and social consequences. But by refusing to treat human action and imagination as mechanistic, a market-process approach loses the ability to posit a definite optimum outcome against which the real world can be compared.

Instead, we are left only with comparative institutional analysis. We cannot judge whether a market outcome is the best outcome. All we can do is make reasonable guesses—Hayek called them pattern predictions—about how such outcomes stack up against those that would likely occur under alternative rules. Knight and Johnson, to their credit, are thoroughly comparative (see especially chapter 6). Ultimately their comparative analysis does not defeat Hayek, but they have the standard of proof right. They need to show that democracy outperforms markets in some specific and important way. But they only offer a convincing case that deliberation can outperform static models of markets.

Bowles et al. suffer from a different problem. They aim at the right target, but misunderstand what would count as a fatal blow. Dynamic markets are susceptible to the problems they cite. But they do not examine whether (a) alternative institutional arrangements do any better in

avoiding crises or (b) whether political agents are *more likely* than market agents to design rules that avoid the potential crises they are rightly concerned about. Their argument largely amounts to a Nirvana Fallacy, finding markets wanting and calling for government regulation because they are not perfect.^[3] Hayek's claim is *not* that markets are *sufficient* to avoid bad outcomes, but that in practice they usually do a better job than the alternatives. So while they are right to note that market-process theory does not necessarily lead to a laissez-faire policy prescriptions, they fail to defeat Hayek's strong, comparative presumption in favor of market institutions.

The point of the above is not to immunize Hayek from criticism, but to point out why certain common arguments against his positions fail. Defeating Hayek would require explaining either (a) why his theory of markets is unsatisfactory, (b) why standard market-failure arguments do in fact apply to market-process theory, or (c) why, even according to Hayek's approach, nonmarket institutions can predictably do a better job than market institutions in some definite sphere. When such challenges materialize, they can provide both defenders and detractors of Hayek's ideas with a valuable opportunity to engage in constructive debate.

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Endnotes

- [1.] See especially "The Meaning of Competition" in Hayek (1948).
- [2.] The only evidence they offer in favor of intervention is to (a) point out the relatively strong performance of Nordic social democracies and (b) argue that the mix of state and market institutions probably represents evolutionary fitness. This is a far-too-casual treatment of institutions to merit much response, but (a) it is not obvious that Nordic countries are less market-oriented than the United States (the Doing Business Index ranks Denmark and Norway higher than the United States), and (b) there is no hint in Hayek that evolutionary pressures are strong enough to favor the most effective institutions over a time scale of few decades, especially when the relevant countries are all relatively market-friendly.
- [3.] See Demsetz (1969) for a fuller explanation of this point. While his argument is couched in terms of efficiency, the same basic point holds for a market-process approach concerned with coordination.

SELECT KNOWLEDGE

by Roger Koppl

Peter Boettke makes a fundamental point about Hayek's supposed movement away from economics. "Hayek didn't move away from economics in the decades after his disputes with Keynes and the market socialists. He was instead delving deeper into the *institutional* conditions that would permit the sort of mutual learning required for social cooperation under the division of labor and the complex coordination which constitutes a modern economy." The key word here is "learning." In his famous 1937 article on "Economics and Knowledge," Hayek identified learning as a problem of economic theory. "Clearly," Hayek said, "there is here a problem of the division of knowledge, which is quite analogous to, and at least as important as, the problem of the division

of labor." If Hayek was right about the division of knowledge in society, then economics is at least as much about how economizers learn as it is about how they allocate resources. Economics is – or at least should be – largely about how people acquire the knowledge that guides and informs their concrete choices as participants in the division of labor. The theory of such knowledge acquisition processes is a kind economic theory of learning that Boettke has dubbed "epistemic institutionalism."

Epistemic institutionalism is quite distinct from the sort of thing many readers may think of as a "theory of learning." The issue is not what's going on in one person's head when "learning" occurs. That sort of question is important in general, and it can be important in economics too as McCabe et al. (2001) nicely illustrates. But epistemic institutionalism is more often concerned with processes that are robust to particular models of individual cognition. Israel Kirzner's theory of entrepreneurship illustrates this property of epistemic institutionalism.



Israel Kirzner

Kirzner (1973) has shown that entrepreneurial discovery drives equilibration in more or less competitive markets. It is a story about learning. But it requires essentially no cognitive psychology. All we need assume is a general propensity to discover and act on opportunities. This assumption is empirical. As Hayek notes in "Economics and Knowledge," the "empirical element in economic theory -- the only part which is concerned not merely with implications but with causes

and effects and which leads therefore to conclusions which, at any rate in principle, are capable of verification -- consists of propositions about the acquisition of knowledge." Presumably, we could imagine a world with people who have zero "alertness" in Kirzner's sense without thereby falling into logical contradictions. Such a world would be so different from that of our ordinary experience, however, that we would have to doubt our guesses about what it would look like. Thus, while the existence of Kirznerian alertness is an empirical assumption, Kirzner's arguments are robust across models of human cognition. And that robustness is characteristic of epistemic institutionalism.

The issue in epistemic institutionalism is how different social arrangements (institutions) affect the way dispersed knowledge is used, what sorts of facts people are likely to discover, and so on. How do alternative institutions influence the epistemic performance of the social system? Boettke discussed the salient example of socialism. Without a stock market, the economy cannot allocate capital well and things will go badly. Socialism is perfectly possible, but rational economic calculation under socialism is quite impossible. So-called capitalism, on the other hand, has a stock market. It has, therefore, market prices for capital goods and capital combinations. Rational economic calculation is therefore possible under "capitalism." Under "capitalism" people can *learn* which capital combinations have greater value and which have less value. Capital therefore tends to move toward higher valued uses and away from lower valued uses.

Hayek seems to have only slowly arrived at a full understanding of the importance of epistemic institutionalism. Late in his career he said, "Together with some later related papers reprinted with it in *Individualism and Economic Order*, ['Economics and Knowledge'] seems to me in retrospect the most original contribution I have made to the theory of economics (Hayek 1994, p. 68)." But in his 1937 paper he says, curiously, "I do not mean to suggest that there opens here and now a wide field for empirical research. I very much doubt whether such investigation would teach us

anything new." I think, instead, that his insights into dispersed knowledge open *many* wide fields for empirical research. Any of the standard sub-disciplines within economics can be studied from the perspective of epistemic institutionalism. The Mises-Hayek argument on socialist calculation should be at the center of comparative systems theory (Boettke 2001). Easterly (2013) has brought Hayekian epistemics to development economics. Kirzner (1973) showed the centrality of epistemic institutionalism to the core of microeconomic theory. And so on. Coyne (2008) studies war from just this perspective. Horwitz (2015) has brought this perspective to the study of the family. My coauthors and I have looked at criminal justice (Koppl and Sacks 2013), forensic science (Koppl 2005, 2010) and experts (Koppl 2012, 2015, 2018) as problems in epistemic institutionalism. We should be bold and creative in applying Austrian epistemics to diverse topics such as art history, the administrative state, child protective services, medicine, and espionage.

For such empirical research to teach us anything new, however, we need a reasonable idea of what "dispersed knowledge" means. The business and economics literature is thick with references to Hayek and dispersed knowledge. But it seems to me that relatively few of these references get beyond the banality that different people know different things. This rather obvious fact is understood by children as young as three or four (Lutz and Keil 2003, Keil et al. 2008). Hayek's insight was not just that different people know different things, but that this humble fact is of central importance to social science.

Hayek also gave us some insight into the nature of the knowledge that is dispersed in the economy. Rather than citing chapter and verse, I will offer my own description without worrying if I have, perhaps, deviated in some way from Hayek's own vision.

The knowledge guiding economizers is embedded in the system and in practice. Such "knowledge" is not necessarily justified or even true in some philosophical sense. It may be flat wrong, demonstrably false. But if it in fact guides action, then is it "knowledge" in the sense of epistemic institutionalism. It is knowledge existing

within the division of knowledge and emergent from the division of labor. The knowledge guiding the actions of participants in the division of labor co-evolved with the division of labor. Each refinement in the division of labor produces new specialized knowledge that, in turn, enables further changes and refinements in the division of knowledge propelling the co-evolutionary process forward. The division of knowledge co-evolves with the division of labor such that each enables the other.



Such knowledge is "constitutive" in more or less Hayek's sense (1952 pp. 36-37). It is "constitutive" because it *constitutes* a part of the phenomenon. The fisher's knowledge is constitutive of fishing, for example, no matter how much or little of it can be found in books propounding theories of fishing. Constitutive knowledge is often tacit, because it exists in our habits and practices rather than in any formula or recipe. We "know how" to ride a bicycle without "knowing that" we are following this or that rule to keep our balance. We often use external objects to help us "know" what to do and when to do it. The indicators on an automobile's dashboard tell us when to change the oil, get gas, or slow down. I don't know when to remove the eggs from the boiling pot. That knowledge exists "exosomatically" in the egg timer. Finally, knowledge is synecological if the knowing unit is not an individual, but a collection of interacting individuals. As Leonard Read (1958) taught us, no one person knows how to make a pencil. The pencil-making knowledge exists in the system; it is synecological. I borrow the term "synecological" from ecology, where "synecology" means "The study of the relationships between the environment and a community of organisms occupying it. Also: the relationships themselves." (That's

from the OED.) Etymologically, the root "syn" means "same." Thus, etymologically, the word means "same ecology." The interacting elements are in the same ecology. The term "synecological" is meant to suggest that knowledge is generated by the interactions of elements in an environment and is not separable from these elements, their interactions, or their environment.

The knowledge corresponding to the division of labor is evolutionary and "constitutive." It may also be tacit, exosomatic, and synecological. When put in the right order these labels give us the acronym SELECT, which represents the idea that knowledge may be Synecological, EvoLutionary, Exosomatic, Constitutive, and Tacit.

The epistemic institutionalism Boettke advocates should, of course, build on Hayek's notion of "dispersed knowledge." But this notion should not be restricted to the rather obvious idea that different people know different things. Rather, we should embrace the larger vision of Austrian epistemics, which includes the idea of SELECT knowledge. This bottom-up model of knowledge contrasts with the top-down epistemics of so many of today's scholars and intellectuals. This bottom-up epistemics supports the view that knowledge should emerge from the system. If knowledge is imposed on the system, it is imposed by someone who thereby imposes upon and dominates others. The persons imposed upon are not in a relation of equality with those imposing a knowledge scheme on society. The view of emergent knowledge I develop in *Expert Failure* (Koppl 2018) shows, I think, that we need not impose a unitary scheme of knowledge on society. We can let knowledge emerge and flourish without attempting to control or systematize it. If we are to be free, we must let knowledge emerge freely. And we cannot be free unless we are free of the domination and tyrannizing of those who would impose a uniform system of knowledge on others. In other words, we cannot be free unless we are equal.

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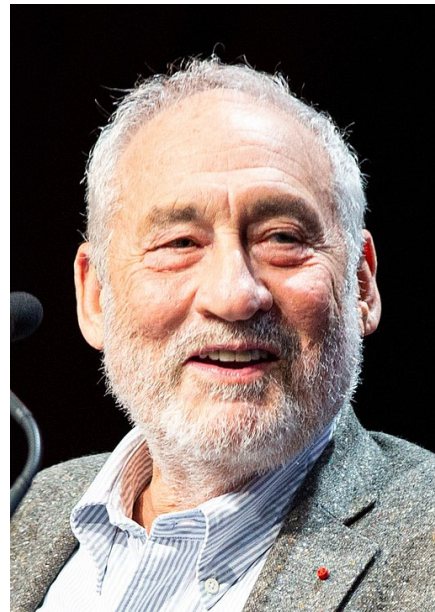
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Joseph Stiglitz

KNOWLEDGE LOST IN INFORMATION

by Peter Boettke

My title is a play on the title of a new book by Philip Mirowski and Edward Nik-Khah, *The Knowledge We Have Lost in Information* (2017). Their book is a social history of the concept of information in the evolution of modern economics, and, of course, Hayek plays a central role in their narrative. But a subtle reading of Hayek both drives their narrative and complicates it. There should be little doubt that the challenge Mises and Hayek put forth in the socialist-calculation debate inspired much of the original research on information economics as seen in Leonid Hurwicz's mechanism design theory, Joseph Stiglitz's comparative institutional analysis, and all the technical work in between. For tractability reasons, though, when Mises's and Hayek's ideas were translated into modern models of the communicative properties of decentralized markets, the "Hayek hypothesis" was understood as positing prices as sufficient statistics to ensure a competitive equilibrium outcome.

This is not the right place to work through the problems with this argument with the analytical rigor required, but suffice it to say it is precisely with this intellectual move that the knowledge Hayek talked about was lost in the models of information. Our professional understanding of the price system has been significantly distorted ever since. In Hayek's "The Use of Knowledge in Society" (1945) he described as a "marvel" the continuous adaptation and adjustments in the market due to changing circumstances guided by price movements. As he says, "[I have deliberately used the word 'marvel'](#) to shock the reader out of the complacency with which we often take the working of this mechanism for granted." (101) It is important to remember this paper wasn't published in the *New York Times* or *Reader's Digest*, but in one of the leading specialized journal in the scientific field of economics – *The American Economic Review*. In other words, the readers were his peers. Yet he had to shock them out of complacency so they would appreciate the price system's role in coordinating plans of demanders and suppliers, enabling the gains from trade and innovation to be realized. As he not-so-subtly concluded, an approach to economic theory "[such as that of much of mathematical economics with its simultaneous equations](#)" (104) systematically distorts our understanding of the basic task of economic science. It

does so by assuming that the knowledge people hold corresponds perfectly with the objective facts and that the unique price and quantity vector that clears the market already has been determined.

What's lost are the learning by economic actors, the multiple margins of adaptation and adjustment guided by relative prices, and the market process. By squeezing out the social process of learning, mid-20th-century equilibrium economics misled economic thinkers and policymakers into falsely believing the equilibrium model could serve as a normative benchmark and planning guide for practical affairs – from comprehensive central planning to regulation of industry to price controls. From Adam Smith to Hayek, it was understood that political economy and economics studied exchange relationships and the institutions within which those exchange relationships are formed and transactions take place. This emphasis was also lost in the system of simultaneous equations, where pre-reconciliation of all plans was required by model construction. Not only the market process, but also the institutions that framed the market process, were lost. So the knowledge lost in information was significant and, I would argue, devastating for science.

Hayek argued in his Nobel Prize address, "The Pretense of Knowledge" (1974) that in the study of man, the approaches that appear to be the most scientific are in fact the least scientific and that to demand of a science more than it is capable of achieving leads to "charlatanism and worse." (371) The student of society, Hayek argued, must resist the urge to commit the error of scientism and instead adopt a more humble stance, eschewing the social-engineering mindset. If not, the student runs the risk of "becoming an accomplice in men's fatal striving to control society," a "tyrant" over fellow citizens, and a "destroyer" of civilization. (372)

The stakes, as Hayek saw it, involved in the knowledge lost in information are not trivial scientifically or socially.

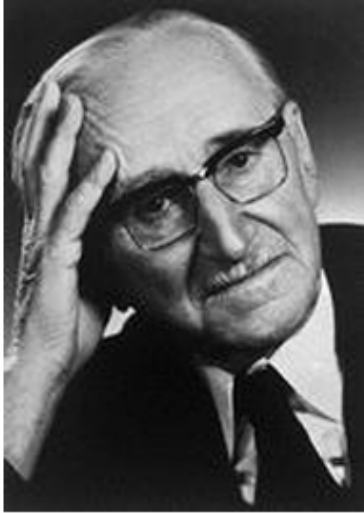
Steve Horwitz, Adam Martin, Roger Koppl, and I are all in essential agreement with Hayek on these arguments. We each have our own unique points of

emphasis, but if we keep the conversation at an abstract level we are in agreement.

Horwitz's calling our attention to *The Sensory Order* is both expected and critically correct. Hayek's challenge to central planning is often taken to be merely one of computational complexity – that the objective information was "out there" but too difficult to collect and marshal effectively. This is precisely not Hayek's argument. *The Sensory Order* describes the operation of the mind, but from a social-science perspective we learn much about human decision-making. Hayek can be read as making an argument that aligns with ideas later developed by thinkers such as Gerd Gigerenzer (2008), the rules of thumb or heuristics in decision-making, and what has been dubbed "ecological rationality." As Hayek stressed in a variety of his writings, man has reason because he followed rules; he has not designed rules because he has reason. What this implies for decision-making is that our choices are best understood as the play between our cognitive capabilities and the circumstances in which we choose. We rely on evolved rules to enable us to cope with our cognitive limitations and our ignorance as well as to navigate the vagaries of changing circumstances. Again, the link between Hayek's "knowledge problem" and the institutional ecology within which we act and learn permeates his work, from theoretical psychology to philosophical anthropology, and it reflects his economics as well. Perhaps one of the discussions we can have is whether -- given the nature of Hayek's enterprise in the social sciences and the humanities, and the way economics evolved in the 20th century and now in the 21st century -- economics is the right scientific community for Hayekians.

Adam Martin insightfully raises the spectre of "defeating Hayek" that permeates the literature and is reflected in two areas --- democratic theory and economic theory. He concisely argues that the arguments in neither democratic theory nor economic theory effectively meet Hayek on his own terms and thus ultimately miss their target. I agree with Martin that, to effectively critique Hayek, this literature needs to address his epistemic arguments about the limits of agreement in democratic decision-making

and the nature of the price system and market economy on his own terms. Hopefully, a conversation that addresses Hayek's epistemic institutionalism can take place in the leading political science and economics journals. Until that happens, the knowledge lost in information will again be illustrated.



Friedrich von Hayek

Roger Koppl makes the important distinction between learning by individuals -- the cognitive processes going on in their own heads -- and the sort of social learning on which epistemic institutionalism strives to focus analytical attention. Of course, as I just discussed with respect to Horwitz's comments, I believe one can see a connection between these two aspects of social ordering, but Koppl is right to stress their distinctiveness. A promising direction for research that follows from Koppl's comment is a more-detailed articulation of the knowledge assumptions used in economic theory. In *The Counter-Revolution of Science* (1952, 99) Hayek distinguished between the knowledge used within a system and the knowledge we develop about a system. Knowledge within the system is constitutive of the phenomena, while our theoretical exercises result in our knowledge about the system.

Consider what I would argue is the subtle but important difference between Hayek and Robert Lucas, who revolutionized economic theory in the 1970s and 1980s with his demand for a shift in economists' assumptions

about knowledge. Lucas in effect argued that economic actors within a system had to be assumed to have knowledge of the theories that economists were deploying to explain the operation of the system (and its control). The Keynesian policy agenda had assumed that the economic-policy expert could stand outside of the system and know how actors within the system would behave if they had the theorists' knowledge, and thus the expert could manipulate policy variables to get the passive actors to behave in ways that would improve the operation of the system. Lucas countered that the actors within the system are neither passive nor ignorant, that they were instead rational actors who could anticipate the consequences of policy changes and act strategically to position themselves for the best response. This was a particularly powerful corrective with respect to policies that were directed at addressing unemployment through inflation. Lucas's rational-expectations revolution transformed the discipline, even after the initial invariance proposition in public policy was no longer widely accepted. (This is the proposition that rational actors fully anticipate the effects of public policy and orient their behavior accordingly in such a way that policy becomes

ineffective. <https://en.wikipedia.org/wiki/Policy-ineffectiveness_proposition>) From the 1970s onward, economic modeling insisted on rational-actor microfoundations and equilibrium theorizing in macroeconomics. For our purpose, the key issue is how Lucas used the knowledge assumptions to constrain the modeling exercise.

A generation earlier Hayek had sought to get his fellow economist to also accept a constraint on their theorizing about knowledge within and about systems. The theorist could never be assumed to be in possession of the contextual knowledge of time and place that actors within the system were using in their decisions, discovering in their interactions, and learning from in their competitive experimentation to improve their lot in life. The theorist can obtain abstract knowledge of the patterns about the system and can cultivate in others an appreciation of the spontaneous order that emerges in the market as individuals strive for productive specialization and

peaceful social cooperation. But a theorist is never in the position of the entrepreneur within the system. Mises made a significant point along these lines when in his original article on the problems of socialist economic calculation he stated: "It is not a knowledge of bookkeeping, of business organization, or of the style of commercial correspondence, or even a dispensation from a commercial high-school, which makes the merchant, but his characteristic position in the production process, which allows of the identification of the firm's and his own interests." (1920, 121)

The Mises-Hayek knowledge problem is characterized, as Koppl points out, by SELECT knowledge, and is grounded in the recognition that alternative institutional arrangements not only structure incentives differently, but also generate different types of knowledge, lead to different discoveries, and shape the environment of learning. The question that I hope we can explore with Koppl is what forms of empirical investigation are appropriate to the discovery and use of SELECT knowledge.

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NO METHODOLOGICAL HOLDS BARRED

by Roger Koppl

Boettke asks what "forms of empirical investigation" are best suited to understanding a social world in which SELECT knowledge guides and shapes human action. I am tempted to merely invite readers to decide for themselves and leave it at that. Two of my most beloved graduate professors, Fritz Machlup and Leland Yeager, used to quote Percy Bridgman. "The scientific method, as far as it is a method, is nothing more than doing one's damndest with one's mind, no holds barred." (Apparently, this quote can be found in Bridgman 1955, p. 535.) You, the reader, may successfully employ a form of empirical investigation that the rest of us mistakenly "know" to be inappropriate. Hayek thought that experimental economics would be useless to test the theory of competitive markets. "We can test it on the conceptual models, and we might conceivably test it in artificially created real situations, where the facts which competition is intended to discover are already known to the observer. But in such cases it is of no practical value, so that to carry out the experiment would hardly be worth the expense." (Hayek, 1968 [2014], p. 305) Vernon Smith and others have shown, however, that experimental economics *can* test market theory and, indeed, support a very Hayekian research program. Let that be an object lesson to those who would limit the methods used by other souls wrestling with the truth. I would not declare any ethical method of inquiry taboo. I will, however, say a few words about complexity, *verstehen*, and bounded rationality.

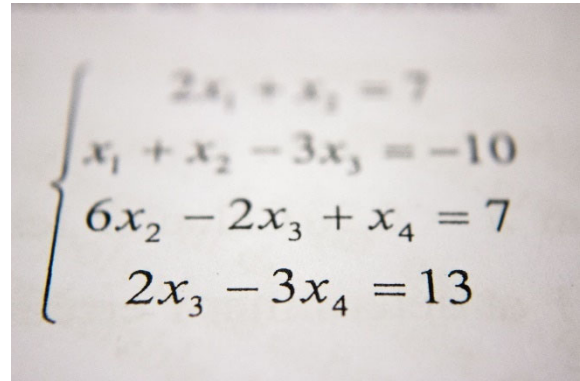
Boettke criticized "mid-20th-century equilibrium economics" rather than complexity economics. Complexity theory gives us economics with heterogeneous agents, bounded rationality, and local knowledge, which is far more Hayekian than mid-20th-century equilibrium economics. As Vriend (2002), Colander and Kupers (2014), and Arthur (2015) illustrate, serious engagement with complexity theory tends to

move economists closer to Hayek. (People who like to represent intellectual history as a Manichean struggle between good guys and bad guys must deal with the fact that Kenneth Arrow was an important figure at the founding of the Santa Fe Institute who suggested Brian Arthur be named a visiting fellow at the nascent institute. See Waldrop 1992.) Rosser (1999, p. 185, n. 11) recognized Hayek as "an early and independent developer of complexity theory in something resembling its current form." Vried (2002) has asked whether Hayek was an agent-based computational economist. I have described Hayek as a complexity theorist (Koppl 2000, 2009). If Hayek was a complexity theorist, then those of us who admire his ideas should engage modern complexity theory seriously.

At least one important modern complexity theorist has built on the listing problem (O'Driscoll and Rizzo 1985) to conjecture that we will never be able to fully mathematize social evolution. Stuart Kauffman and his coauthors (Felin et al. 2014, Koppl et al. 2015) have drawn on recent developments in the theory of biological evolution (Longo et al. 2012, Kauffman 2014) to show that the "phase space" of evolutionary systems is not generally stable and that, consequentially, they are "lawless" in a specific sense. They are "lawless" because there are no fixed "laws of evolution" for the system such that the future is entailed (up to a stochastic error term, perhaps) in some initial moment. Rather, evolution is "creative" in the sense that over time it generates new forms. It generates innovations that cannot be anticipated. Thus, modern complexity theory seems to imply limits to the power of mathematics to describe or predict the evolution of complex adaptive systems. It shows that evolutionary systems are creative in a sense close to that of Henri Bergson, but reaches this result by a very different path, one that may seem more "scientific" and less "philosophical" than that of Bergson.

Kauffman and his coauthors emphasize the difference between algorithmic and non-algorithmic choice. In my view, Kirzner's theory of entrepreneurship is "really" a theory of non-algorithmic choice. If "learning" is frame change, if it is the acquisition of new *knowledge* rather than

new *information*, then there can be no learning in algorithmic choice, whereas learning is entrepreneurial discovery.



$$\left\{ \begin{array}{l} 2x_1 + x_2 = 7 \\ x_1 + x_2 - 3x_3 = -10 \\ 6x_2 - 2x_3 + x_4 = 7 \\ 2x_3 - 3x_4 = 13 \end{array} \right.$$

Whatever other limits mathematics may or may not have, we cannot apply it to social theory without "interpretation" in the sense of the old *verstehen*, or "understanding," tradition of Dilthey, Weber, Schutz, and Mises (Koppl 2010). Mathematics itself is always an empty calculus, pure syntax. To use it in social theory, we must give its terms meanings. We need semantics. We must "interpret" the calculus. For the social sciences (with the partial exception of demographics) such interpretation is the understanding of what Schutz and Machlup called "meant meanings." Thus, even on the most optimistic view of the role of mathematics in economics and other social sciences, we must preserve a role for "interpretation" in the sense of classical hermeneutics. (See Albert 1985 on the difference between classical and universal hermeneutics.) This is not the place to express my dissatisfaction with the "universal hermeneutics" of Heidegger and his followers. I will merely record my opinion that Alfred Schutz has given us the best available account of "understanding" in the classical hermeneutic tradition. We can find, in my opinion, incoherent statements in hermeneutics figures coming both before and after Schutz, whereas Schutz always maintains clarity, coherence, and scientific rigor. Even Weber and Mises, though free of absurdities and gross incoherence, are not as clear, thorough, or deep as Schutz on the understanding of meant meanings.

If I celebrate Schutz on interpretation, I would not wish to suggest that we can stop there and rest contented. We

must continually connect our existing tradition and framework to recent developments and current science. I have attempted to link hermeneutics to modern cognitive psychology (Koppl 2010). Felin, Koenderink, and Krueger (2016) draw on both the 19th-century biologist Jakob von Uexküll and modern psychology (Koenderink 2014) to criticize standard models of "bounded rationality" for assuming an "all-seeing eye."

When we consider what "forms of empirical investigation" to use, we should not be tyrants. It's no holds barred, and let a hundred flowers bloom. This open attitude does not alter the fact, however, that any method has its limits. Nor does it disbar us from challenging implicit assumptions or calling out over-claiming by others.

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LIBERAL INSTITUTIONS AS NODAL POINTS OF PLAN COORDINATION

by Steven Horwitz

As the four of us do seem to agree on the fundamental issues that Pete's opening essay raised, it seems most valuable to continue to do what we have already started to do, which is to explore some of its implications. In this comment, I want to revisit some ideas I explored in an earlier paper in which I compared Hayek's theory of mind with the Austrian theory of capital. Here, I want to emphasize the idea of "the plan" that was so central to

Ludwig Lachmann's 1956 book [*Capital and its Structure*](#). I then want to argue that liberal institutions are crucial for the ability to formulate, execute, and coordinate human plans in the way Lachmann discusses them.



Ludwig Lachmann

In Lachmann's account, entrepreneurs formulate a production plan by bringing together physical capital goods and human capital that they think will complement each other in executing the plan. For Lachmann, "the plan" is the fundamental unit of human action, and it rests on the underlying expectations of the plan formulators. As actors attempt to execute those plans, some will succeed and others will fail. Those plans that fail, as measured by profit and loss, will have to be revised in light of that information. Entrepreneurs will substitute other physical and human capital for pieces of the old plan, formulating a new plan that they believe will now succeed. Even successful plans might undergo a process of revision if entrepreneurs believe that the underlying data have changed.

This, of course, is a learning process not unlike how individual human actors learn in Hayek's cognitive theory. The argument in *The Sensory Order* (2017 [1952]) is that humans act based on a "model" of the world which is used to "try out" various courses of action to imagine their consequences before action is taken. Hayek proposed that we then act based on which of those possibilities appears to best accomplish our goals. This is akin to a firm's budgeting process. This is the source of his argument that we live as much in a world of

expectation as a world of fact. Our actions are based on the expectations produced by the implicit theories that are embedded in the model.

In addition, the success or failure of our individual actions feeds back in ways that change the model as we come to learn more about the causal structure of the world and our role in it. This is the individual analogue to profit and loss. Though the process that happens within the brain is not something we can consciously control in the way an entrepreneur can with a production plan, both seem to be examples of the twin processes of evolution and spontaneous order at the heart of Hayek's social theory. Hayek (2017 [1977]) himself recognized this when he pointed to his work on capital as prompting him to think about the mind as a similarly structured spontaneous order.

Hayek too emphasized the importance of the plan, especially in his 1937 paper "Economics and Knowledge," which put the coordination of plans at the center of what market processes do. In [*The Use of Knowledge in Society*](#), Hayek (1945) emphasized that his criticisms of planning are not criticisms of *any or all* planning, just the idea of one centralized plan. What the market price system does is to enable us to coordinate decentralized plans and thereby make more complete use of the various kinds of knowledge people possess.

And it is here that liberal institutions matter. As Lachmann pointed out in his 1971 book *The Legacy of Max Weber*, social institutions are nodal points for plan coordination. Their stability enables us to have more certainty about the accuracy of our expectations and thereby formulate better plans. This applies both to the plans of entrepreneurs and the models we all make use of in all of our action. The rule of law, well-defined and enforced property rights, and sound money, perhaps the three core liberal framing institutions, all provide the stability necessary for better plan formulation and the increased likelihood of successful plan execution.

Put differently: for Hayek's twin processes of evolution and spontaneous order to work successfully at the level of the individual, the firm, and society as a whole, they have to be embedded in institutions that work as

knowledge surrogates to both facilitate more successful plan formulation and provide feedback when those plans fail. Liberal institutions do so at all three levels far better than any alternatives.

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HOW MISESIAN IS THE HAYEKIAN EPISTEMIC TURN?

by Peter Boettke

Hayek often said his 1937 paper – "Economics and Knowledge" -- was a subtle rebuke of Mises's apriorism. It was not, as many might want to believe, a root and-branch rejection, but one only in the realm of applied theory, which included the study of the market economy. The realm of pure theory – or what Hayek calls the "Pure Logic of Choice" or in other places "The Economic Calculus" – the essential Misesian position on the epistemological status of praxeology was upheld. And remember, Mises did not claim he was unique:

[In asserting the a priori character of praxeology](#) we are not drafting a plan for a future new science different from the traditional sciences of human action. We do not maintain that the theoretical science of human action should be aprioristic, but that this it is, and always has been so. (1949, 40; 2007, vol. 1, p. 40)

I believe the most scientifically productive reading of Hayek's 1937 paper is as a clarification of the Misesian project with respect to the study of the market economy – or what both Mises and Hayek called "catallactics." In catallactics the pure logic of choice is a necessary, but not a sufficient, component for a full explanation. We must, in our quest for a full explanation, explore how alternative institutional arrangements impact the *learning* of individuals. In this way we move from the pure logic of choice to the situational logic of organizations to the study of the exchange order, with its productive specialization and peaceful social cooperation, and the entrepreneurial function as an agent of change. This is how I would read the passages in Hayek (1937 34ff) where he argues that the pure logic of choice is not *directly* applicable to the explanation of social relations. Equilibrium for individual choosers, in other words, is quite different from equilibrium achieved by dispersed and diverse individuals. The first is a necessary

part of the explanation, but to achieve the sort of dovetailing of plans that defines the equilibrium state in the social relations of the market, we must be able to explore how "under certain conditions, the knowledge and intentions of the different members of society are supposed to come more and more into agreement, or, to put the same thing in less general and less exact but more concrete terms, that the expectations of the people and particularly of the entrepreneurs will become more and more correct." (1937, 45)

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It is in this manner that economics, Hayek argues, ceases to become purely an exercise in pure logic and becomes in a sense an empirical science. It is the study of how alternative institutional environments influence the behavior of individuals and how that in turn impacts the ability of these individuals to realize the gains from social cooperation under the division of labor. And what we must focus our analytical attention on is how they acquire and utilize the knowledge dispersed throughout the system; in other words, how they *learn* how best to orient their actions with others so as to achieve a coordination of plans that defines the equilibrium of the system.

Mises, not Hayek, was the first to argue that socialism would have to forgo the intellectual division of labor in society and that this was the decisive objection to socialism. (See 1927, 50) Consider the following lengthy passages from *Human Action* (1949, 692; 2007, vol. 3, pp. 691-92):

[All older social reformers](#) wanted to realize the good society by a confiscation of all private property and its subsequent redistribution; each man's share should be equal to that of every other, and continuous vigilance by the

authorities should safeguard the preservation of this equalitarian system. These plans became unrealizable when the large-scale enterprises in manufacturing, mining, and transportation appeared. There cannot be any question of splitting up large-scale business units and distributing the fragments in equal shares. The age-old program of redistribution was superseded by the idea of socialization. The means of production were to be expropriated, but no redistribution was to be resorted to. The state itself was to run all the plants and farms.

This inference became logically inescapable as soon as people began to ascribe to the *state* not only moral but also intellectual perfection. The liberal philosophers had described their imaginary state as an unselfish entity, exclusively committed to the best possible improvement of its subjects' welfare. They had discovered that in the frame of a market society the citizens' selfishness must bring about the same results that this unselfish state would seek to realize; it was precisely this fact that justified the preservation of the market economy in their eyes. But things became different as soon as people began to ascribe to the *state* not only the best intentions but also omniscience. Then one could not help concluding that the infallible state was in a position to succeed in the conduct of production activities better than erring individuals. It would avoid all those errors that often frustrate the actions of entrepreneurs and capitalists. There would no longer be malinvestment or squandering of scarce factors of production; wealth would multiply. The "anarchy" of production appears wasteful when contrasted with the planning of the *omniscient* state. The socialist mode of production then appears to be the only reasonable system, and the market economy seems the incarnation of unreason. In the eyes of the rationalist advocates of socialism, the market economy is simply an incomprehensible

aberration of mankind. In the eyes of those influenced by historicism, the market economy is the social order of an inferior stage of human evolution which the inescapable process of progressive perfection will eliminate in order to establish the more adequate system of socialism. Both lines of thought agree that reason itself postulates the transition to socialism.

It is important to note a few themes in this passage. First is the for-the-sake-of-argument assumption of benevolence. This actually follows from a strict adherence to Weberian value-free analysis: assuming the proponent of reforms X, Y, Z only intends to promote the general welfare, not their individual or group interest. Second is the damage done positively and normatively by assuming omniscience in economic and political economic analysis. Third is the necessity to challenge the "abuse of reason" by way of rational analysis.

There is no gaping divide between Mises and Hayek methodologically, analytically, or ideologically. Hayek is simply the most talented Misesian thinker we have seen, and in developing that Misesian system he pushed in creative and productive ways that Mises may not have been able to see during his scientific era. But it is not as though Hayek hasn't told us this in private and public pronouncements. In a letter to Mises in 1931, as Hayek was being well received at the London School of Economics, Hayek wrote (Hülsmann, 635):

Some of the junior (rank-wise, not age-wise!) colleagues—in particular Hicks, Benham, or Toysonby—are excellent, too. There is much opportunity for me to learn, and I am hindered in doing so only because Robbins presented me as an eminent authority, so that people always want to hear my opinion on all matters.

I am aware, for the first time, that I owe to you virtually everything that gives me an advantage as compared to my colleagues here and to most economists even outside my narrow field of research (here my indebtedness to you goes without saying). In Vienna one is less aware of

[this intellectual debt to you] because it is the unquestioned common basis of our circle. If I do not deceive too many expectations of the people here at LSE, it is not to my credit but to yours. However, [my] advantage [over the others] will disappear with your books being translated and becoming generally known....

I must tell you this because I here feel more indebted to you than anytime before. Moreover, given that Robbins and Plant provide excellent support to championing your ideas, I hope to have some success.

And much later in the 1970s, during his interviews for the UCLA oral history project, Hayek would say about his relationship with Mises:

I just learned he was usually right in his conclusions, but I was not completely satisfied with his argument. That, I think, followed me through my life. I was always influenced by Mises's answers, but not fully satisfied by his arguments. It became very largely an attempt to improve the argument, which I realized led to correct conclusions. But the question of why it hadn't persuaded most other people became important to me; so I became anxious to put it in a more effective form.... In my interests, I've been very much guided by him. Both the interests in money and industrial fluctuations and the interest in socialism comes very directly from his influence.... Being for ten years in close contact with a man with whose conclusions on the whole you agree but whose arguments were not always convincing to you was a great stimulus.

Friend and foe of the Austrian school of economics have made an error in not seeing the shared research program of Mises and Hayek for the humanities and the social sciences, and how Hayek's institutional and epistemic turn in the 1940s and 1950s was presaged by the work of Mises in the 1920s and 1930s. There are very subtle and important differences, no doubt, but a plausible and productive reading of their work provides us, I'd argue,

with a more formidable analytical framework to take on the excessive formalism and excessive aggregation which gripped the economics profession mid-20th century and has yet to let fully go, and which has resulted in the alliance of statism and scientism that has both distorted economics, political economy, and social philosophy and made a mess of practical affairs.

I wanted to lay this out clearly because my further responses will be focused on the implications for doing economics guided by *epistemic institutionalism*, and I didn't want us to lose sight of the essential Misesian nature of this project.

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THE HARD CHALLENGE OF DUMB-DUMB ECONOMICS

by Roger Koppl

Humans have limited intelligence. Basically, we're dumb. That's obvious enough. And yet most economists struggle with this simple fact. The old-fashioned "hydraulic" Keynesian models assumed that the economic experts were smart. (Phillips 1950) These were dumb-smart models. Entrepreneurs are dumb; economists are smart. Dumb-smart economic theory was relatively easy because the economy was viewed as a simple machine. The "Lucas critique" says this asymmetry in smartness gives you the *illusion* that you can fine tune the economy by twiddling a few dials. It's not that easy, however, because private actors will react when policy changes. (Lucas 1976)

Today's standard ("DSGE") macroeconomic models try to avoid the Lucas critique by assuming everyone is smart. They are smart-smart models. Both private and

public actors are smart because they have "rational expectations." They are so smart, in fact, that they can compute the uncomputable. (Spear 1989) The hard thing with DSGE models is the math. But the economics is still relatively easy. If there are no frictions, the economy is efficient because smart people can always glide smoothly into the perfectly calculated optimal action. Add in some friction, and policy may have some role at least in the short run. The game for economists is to discover or, perhaps, *invent* frictions that will justify your prior policy preference. Paul Romer (2010) calls that sort thing "mathiness," though in the context of growth theory. As far as I know, there aren't many models in which private actors are smart and public actors are dumb. I suppose that would be too much for the vanity of any economist with policymaking ambitions.

Finally, there is dumb-dumb economics, in which everyone has "bounded rationality" in some sense. I say "in some sense" to remind the reader of the important criticism Felin, Koenderink, and Krueger (2016) make of the standard model of bounded rationality. The epistemic institutionalism of Hayek and the Austrians is dumb-dumb economics. Private actors are dumb, but so are public actors. This dumbness symmetry is a part of the analytical egalitarianism Boettke mentioned.



President Barack Obama

Dumb-dumb economics is hard. The dumbness symmetry between policymaker and public implies that

clever policy wonks cannot consistently outsmart the public. Health economist Jonathan Gruber, sometimes dubbed the "Obamacare architect," famously said that the "stupidity of the American voter" was essential to the passage of "Obamacare," i.e., the Affordable Care Act of 2010. (Roy 2014) That's dumb-smart thinking, and it won't fly. The dumbness assumption makes it impossible to imagine that everybody will just automatically do the optimal thing. People have to receive the appropriate signals and make the appropriate calculations. Different institutions will produce different signals, making different calculations possible.

This stuff matters. Smart-smart macroeconomics seems to have led to some poor decision-making at the Fed. Following the onset of the Great Recession, Alan Greenspan confessed to an error in his economic logic. In testimony before Congress in October 2008 Greenspan (2008, p. 2) said he had "found a flaw" in his model of capitalism:

[T]hose of us who have looked to the self-interest of lending institutions to protect shareholder's equity (myself especially) are in a state of shocked disbelief. Such counterparty surveillance is a central pillar of our financial markets' state of balance. If it fails, as occurred this year, market stability is undermined.

In Greenspan's logic, "self-interest" was sufficient to ensure foresight and stability. This embarrassing error was a product of smart-smart macroeconomics. Greenspan thought it was sufficient that counterparties had skin in the game. In some way that we needn't understand, smart agents will figure out what is in their interest and act accordingly. Greenspan did not think it was necessary to identify any *mechanism* for the production and distribution of the knowledge that counterparties required to protect themselves.

If we reject the illusions of dumb-smart and smart-smart macroeconomics, if we take up the intellectual challenge of dumb-dumb macroeconomics, then we will be driven to seek out and identify the mechanisms of knowledge production and distribution in society. And it is a

challenge. We need to immerse ourselves in the institutional structures shaping knowledge production and distribution. To explain the Great Recession, for example, we need to understand how too-big-to-fail shapes the risk-taking behavior of large financial institutions. Greenspan's obliviousness on this score is a striking example of the dangers of smart-smart economics. If we want an even moderately complete dumb-dumb account of the Great Recession, we need to penetrate to a more fine-grained understanding of the institutions of knowledge production and distribution in society. To cite just one salient example, we need to understand the institutional structure of the rating agencies that so flamboyantly failed. In the United States, bond-rating agencies are creations of the government, and they had an incentive to produce unrealistically optimistic ratings. (Levy and Peart 2008, 2017)

Epistemic institutionalism requires us to identify the mechanisms of knowledge production and distribution under the dumb-dumb assumption that no one has superhuman powers of cognition. It is a challenging research program, but the only one likely to spare us from the sort of "shocked disbelief" Alan Greenspan experienced when things fell apart.

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But what about the institutions—like property rights—that create that sphere? Here there is a surface level tension in Hayek that may vex some readers. In some of his work, Hayek puts on his Burkean hat. He emphasizes the accumulated knowledge of private property and related social institutions, which are the results of thousands of years of humans figuring out how to constrain conflict and facilitate cooperation (1988). This Hayek is congenial to conservative readers. Institutions can only guide our behavior to the extent that they are at least somewhat stable; if property law changed day to day, entrepreneurs would not have a *secure* sphere from which to experiment.

But Hayek also penned "Why I Am Not A Conservative" (1960). Here he argues that, while existing institutions deserve credit for getting us this far, they only deserve our allegiance as long as we do not have a better option on the table. Just as entrepreneurs might devise new methods of production, we might imagine better ways of living together. And just as economic activity proceeds best when we adapt to technological, social, and material changes, so too should we look for adaptability in institutions.

All of this is complicated by the fact that rules are shared. At least two people must recognize the force of a rule for it to have any effect. This makes institutional entrepreneurship thornier than ordinary market entrepreneurship, in that the attempt itself to create and enforce new rules might cause conflict rather than merely waste. We have a name for individuals who imagine and implement their own brand-new rules of private property: criminals. This is a *prima facie* point in favor of stability,

ADAPTING INSTITUTIONS

by Adam Martin

Our discussion seems to have splintered into two threads, both interesting and obviously related. One is on Hayek's evaluation of social institutions in terms of their epistemic properties, the main subject of Boettke's lead essay. The other thread is focused on the philosophy of social science, an undercurrent in Boettke's analysis brought to the surface by Kopppl's comments. Before jumping in on the latter conversation, I want to explore the former a bit more.

A key message of Hayek's work is that, if society is to prosper, individuals need a large and secure sphere in which they can act without asking permission. Private property rights help secure such a sphere. Entrepreneurs must have the freedom to try out new ideas, both for the sake of increasing knowledge and in response to unavoidable and incessant changes in society and the physical world. As late as 1981, Hayek was still arguing contra Keynes that adaptability, not aggregate spending flows, is the key to sustained economic growth.

since establishing new rules has often been a violent process.

How can those inspired by Hayek negotiate this apparent tension or tradeoff between institutional stability and institutional adaptability? If rules change too fast or too radically, they lose their coordinating function. If they are too rigid, they will prove fragile over time. One obvious point to make is that full-blown, top-down central planning performs poorly on both margins. Completely supplanting existing social institutions destroys hundreds or thousands of years of accumulated learning about how to get along in a particular environment. And maintaining adaptability always requires the utilization of dispersed knowledge, which central planning cannot take advantage of. While central planning can achieve rapid one-time reform, it tends to produce systems that are at once disruptive, simplistic, and fragile.

But once we get past treating society as a blank slate, negotiating the stability-adaptability tradeoff becomes much less clear. Five main types of "meta-institutions"—rules for changing rules—have been proposed that take this Hayekian dilemma seriously.

Customary Law: These rules are developed from the bottom-up in primitive societies, and took a long evolutionary path to produce liberal rules of property. (Hayek 1981)

Common Law: Hayek devotes some space to discussing what he calls judge-made law, which arises from particular cases and allows the accumulation of knowledge due to precedent. (Hayek 1973)

Piecemeal Legislation: Hayek also argues that there is a role for some top-down tinkering with the rules on a piecemeal basis because sometimes the common law runs into evolutionary dead ends. (Hayek 1973, 1979)

Polycentric Jurisdictions: Polycentric systems are those in which authority is fragmented throughout society. They allow for competition between rule-making jurisdictions—voting with your feet—creating a crude but potentially valuable approximation of a market in law. (Hayek 1948, ch. 12)

Market Anarchism: The most radical approach to balancing stability and adaptability is to create outright markets for institutions. (Stringham and Zywicki 2011) Systems like the merchant law in medieval Europe appear to have arisen this way. (Benson 1990)

Each of these alternatives has both advantages and disadvantages that merit careful comparative scrutiny.

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INSTITUTIONS, SPONTANEOUS ORDER, AND LIBERALISM

by Steven Horwitz

The ongoing discussion has highlighted the importance of institutions in ensuring that societies can overcome the division of knowledge that characterizes all human social life. This was the context of Hayek's concern in the 1930s and 40s with the question of how markets, and particularly the price system, enabled us to make use of

the dispersed, contextual, and tacit knowledge of other human actors.

What Hayek's work more generally did was to give the long-standing case for liberalism the epistemic emphasis that is at the center of our discussion. In many ways, Hayek was building on the contributions of prior liberal thinkers. In particular, as I have argued elsewhere (Horwitz 2001), Adam Smith in the 18th century and Carl Menger in the 19th century are properly seen as the precursors to Hayek's 20th-century epistemic liberalism. It was Smith who gave us the first real glimpse of the market as a spontaneous order. It was Menger who not only expanded on the idea of spontaneous order, but refined our understanding of how the market operated through his value theory and microeconomics more generally.



Adam Smith

Menger and the later economists of the Austrian school, such as Mises and Hayek, provided us with a more complete understanding of the way in which monetary calculation, the price system, and profit and loss enable humans with fragmentary knowledge to figure out how best to allocate resources and thereby channel self-interest into social cooperation. However, for that process to work, it is necessary to have the right

institutional framework in place. Even Smith's invisible hand will not turn self-interest into social benefit without the right institutions. For example, where person and property are not protected, it is all too easy for self-interest to take the form of plunder, which provides no benefits for others.

The complication is that we normally cannot know ahead of time at any real level of detail what sorts of institutional arrangements will best facilitate the progress-enhancing spontaneous order of markets. As Menger recognized, many of the institutions that perform this function are themselves the product of unplanned social evolution. He (1985 [1883], 146) framed this as a question, which is often now termed the "Mengerian Question:" "How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them?" His answer was his own work explicating the operation of spontaneous orders, with his theory of money being the model for such explanations.

Menger's understanding of spontaneous-order processes in a variety of social institutions, along with Hayek's addition of the importance of knowledge, give us powerful reasons to think that spontaneously evolved institutions will be more effective than ones created from the top down. Combining these insights with the Austrian work on how the price system and other social institutions provide the feedback required for successful social coordination, we have a way of talking about the kind of comparative institutional analysis that has also been at the center of our discussions. We might summarize this perspective with a 21st-century version of the Mengerian Question:

How well do spontaneously evolved social, political, and economic institutions provide people with the knowledge and incentives they require to know that they have made mistakes and guide them on how to correct those mistakes, and can any other feasible institutions do any better?

It seems to me that is the question at the center of comparative political economy and that Hayek answers

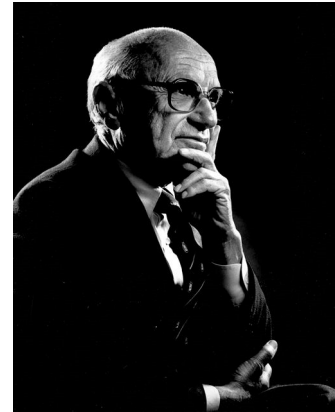
with his epistemic understanding of the virtues of liberal institutions.

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definitely an exercise in "punching down" in the world of scholarship.



Milton Friedman

MISCONCEPTIONS ABOUT HAYEK

by Peter Boettke

Bruce Caldwell once told me he can tell how seriously a scholar treats Hayek by how soon Chile comes up in the conversation. If it is within the first few seconds or minutes, not so serious. If deeper into the discussion, then you might be able to have a serious conversation -- even about Hayek and Chile. Serious work is being done in that regard by Andrew Farrant and Edward McPhail (2014) and Caldwell and Leonidas Montes (2015). But far more work recently has been of a nonserious and muckraking nature by the likes of Naomi Klein (2007) and Corey Robin (2013). Recall, also, the various efforts to see the Mont Pelerin Society as the center of a grand neoliberal conspiracy working to achieve -- well, precisely what is never completely clear except it has something to do with some sort of world domination. Neoliberalism is synonymous with "bad things": monopoly privilege, income inequality, macroeconomic instability, racial and ethnic injustice. And did I mention massive unearned wealth for the guardians of privilege at the expense of the unprivileged here and abroad?

Not only do the nonserious fail to provide more than thin textual evidence (a sentence here or there, a quote out of context) for their wild accusations, they fuel those accusations with a tone of moral condemnation of people and ideas. Wrestling with those accusations, which in some sense must be done for the sake of the ideas, is

But how do we engage without becoming apologists engaging propaganda? Perhaps, I want to suggest, we do so by patiently and carefully clarifying the misconceptions about these thinkers -- Hayek, Friedman, Buchanan, and the schools of thought they represent: Austrian, Chicago, and Virginia; and the organizations they are often identified with: the Mont Pelerin Society, Hoover Institution, University of Chicago, and George Mason University. Friedman and Buchanan are for another time, as our focus is on Hayek.

There should be little doubt that Hayek remains a lightning rod in the social and policy sciences. Unfortunately, he suffered the fate of an intellectual revolutionary in two ways due to methodological, analytical, and practical policy prejudices. He was both misunderstood and falsely appropriated. In the practical policy realm, this meant that his books such as *The Road to Serfdom* (1944) and *The Constitution of Liberty* (1960) were not read but displayed; his arguments were not wrestled with but reduced to slogans in the popular imagination.

In the realms of methodology and analytics, Hayek's bold ideas were either incorrectly translated into the preferred language of the day -- the very language he was trying to get folks to break out of -- or they were outright dismissed as either incomprehensible or relics of an earlier age that science had progressed beyond. I recently wrote in an article for the *Journal of the History of Economic Thought* that "Mises was a sophisticated nineteenth-century thinker

and Hayek was a sophisticated twenty-first-century thinker, but in both instances the twentieth century didn't know how to deal with their arguments about methodology, analytic methods, and the political economy import of their analysis of socialism, interventionism, and radical liberalism." (2015, 84) As we seriously study the evolution of Hayekian ideas concerning *epistemic institutionalism*, we can see that Hayek spoke to an age that could not understand him and thus interpreted him as saying something old and irrelevant if not incoherent.

So perhaps by putting aside the ideological misconceptions embedded in the critique of neoliberalism, and by concentrating on the main scientific misconceptions, we can begin to reverse this intellectual state of affairs. I refer to the misconception that:

1. Hayek's methodological individualism meant he worked with atomistic actors who were perfectly rational;
2. he saw the price system as perfectly efficient;
3. he was categorically opposed to government action;
4. *The Road to Serfdom* presents a slippery-slope argument
5. he regarded anything produced by spontaneous order as good;
6. his resistance to formal modeling and statistical testing was based on old-fashioned methodological ideas that led to dogmatic stances rather than scientific progress;
7. the evolutionary arguments developed late in his career about group selection constituted an abandonment of his earlier methodological individualism;
8. his ideas on monetary theory and the price system never evolved throughout his career;
9. his ideas were roundly defeated by Keynes with respect to macroeconomics, and by Lange-Lerner with respect to market socialism;

10. after the publication of *The Pure Theory of Capital* (1941) Hayek effectively abandoned economics and retreated to political theory, legal theory, and public intellectual work.

My lead essay sought to address 10 and touched on 2 and 8. But all of these need to be addressed in a thorough manner. If we can clarify these misconceptions, I sincerely believe Hayek's revolutionary ideas in methodology, analytics, and political economy will be better understood and the implications for practice of the science of economics, the art of political economy, and thinking in social philosophy will be transformative.

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AND GOODWILL TOWARD ALL

by Roger Koppl

Boettke's topic was "Hayek's Epistemic Liberalism." So far in this discussion, we have given more attention to epistemics than liberalism. In the end, Hayek's epistemics and Hayek's liberalism are not separable because liberalism is first and foremost a theory of society. "The first thing that should be said" of "true individualism," Hayek insisted, "is that it is primarily a theory of society, an attempt to understand the forces which determine the social life of man, and only in the second instance a set of political maxims derived from this view of society." (Hayek 1948, 6) A different epistemics would give us a different theory of society and, presumably, a different politics. Thus, Hayek's epistemics imply Hayek's liberalism and not the other way about. As a first approximation, we can say

TRUE: Hayekian epistemics → Hayekian liberalism

FALSE: Hayekian liberalism → Hayekian epistemics

That's a first approximation. I suppose there is a question of whether Hayekian epistemics is only a part of the large body of Hayekian social theory or the whole thing. We have seen him say, for example, that the pure logic of choice is not empirical, while assumptions about knowledge transmission are empirical. Thus, maybe we should consider the a-priori bit to be separate from the empirical bit. But I can imagine some would argue against such a separation. I doubt if it really matters whether we consider the "epistemic" part of Hayek's social theory to be just a part of his social theory or the whole thing. Still, out of an abundance caution, I will offer the following, perhaps better approximation to the truth as I see it.

Hayekian epistemics + the rest of Hayekian social theory → Hayekian liberalism

But this approximation is still too crude. The inference just given cannot be strictly valid because liberalism is "normative." It is a set of ideas about what people should and should not do and about which social situations are better and which worse. Liberalism is matter of *ought* and not *is*. Epistemics and social theory, by contrast, are about *is* and not *ought*. You can't get an *ought* from an *is*. To make our inference logically valid, then, we need some sort of normative assumption. That brings us to the following unsatisfactory formula.

Hayekian epistemics + the rest of Hayekian social theory + some sort of "liberal" normative assumption → Hayekian liberalism

Okay, but what sort of normative assumption works to make this inference valid? Surprisingly, perhaps, a rather weak normative assumption is sufficient to imply (in conjunction with Hayekian social theory) Hayekian liberalism. All we need is goodwill to humans. Now, finally, we arrive at the valid inference so crudely approximated above.

Hayekian epistemics + the rest of Hayekian social theory + goodwill → Hayekian liberalism

Notice how far this inference is from the sort of thing we usually get on editorial pages and Sunday morning talk argument yelling-at-each-other shows. The usual thing is to assert some value and demand that the government enforce it. We quickly sink into culture wars. Your values are evil. My values are good. Thus, the government should oppress your values. It's a short step to demanding that the government oppress not just your values, but *you* and all the other people who uphold your evil values. When we try to run the inference backward from political program to social theory, we start where we should end. We start in a political program, whereas our reasoning should *end* in a political program, and it should do so only after we have considered what is and is not possible for governments to do. Socialism is a beautiful vision of a better world. But if it is impossible, then we will do great harm by trying to implement it. When we start at the end by reasoning from political program to social theory, we do more than just make a logically invalid inference. We invite social conflict. We invite the

democratic electorate to divide itself into hostile camps in constant and, I fear, escalating war with each other. If we begin at the beginning, however, and work out the consequences of different policies before choosing among them, we have a better chance of avoiding conflict and bad unintended consequences. All this might seem like too much to ask because we will have to work out the values bit, and that's when run into conflict. So it would seem. But if liberalism is about right in its social theory, then the only value we need to agree on to resolve the great majority of policy disputes is simple goodwill. Do you or do you not wish well upon others?



Friedrich von Hayek

I have spoken breezily of goodwill. This is not, perhaps, the moment to elaborate on the great difficulty of really and truly upholding universal goodwill. I would note, however, that universal goodwill requires of us a "cosmopolitanism" that is often contrary to our spontaneous feelings. Mises (1927, 105-06) explains the cosmopolitan demands of the sort of liberalism he and Hayek defended.

[Liberal thinking always has the whole of humanity in view and not just parts.](#) It does not stop at limited groups; it does not end at the border of the village, of the province, of the nation, or of the continent. Its thinking is cosmopolitan and ecumenical: it takes in all men and the whole world. Liberalism is, in this sense, humanism; and the liberal, a citizen of the world, a cosmopolite.

Cosmopolitan liberalism is a philosophy of universal goodwill. It demands that we mortify our tribalist impulses and cultivate greater empathy for others, whom we might mistakenly tend to view spontaneously as somehow "other" and unlike us. We must enrich our imagination to reach empathy for persons we do not know in places we do not go. And we must suppress the visceral impulse to divide *Us* from *Them*. The moral life of a liberal cosmopolite, though difficult, is spiritually uplifting and worthy of our utmost efforts.

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ANOTHER UNPLEASANT TRADE-OFF

by Adam Martin

In response to Boettke's situating Hayek in the broader comparative institutional and mainline tradition, Horwitz and Koppl have pointed to a number of complementary insights: Hayek's theory of mind, Lachmann's concept of plans, Schutz's phenomenology, and insights from contemporary complexity theory. I am largely sympathetic to looking for and exploring these sorts of complementarities that enrich the details of a broadly Hayekian approach. But they come at a cost.

Both Boettke and I have pointed out that Hayekian ideas are subject to frequent misinterpretation. While some instances of failing to grapple with Hayek's ideas are less defensible, in many cases these misfires are perfectly understandable. Market-process theory is distinct enough from standard price theory that sometimes ideas get lost in translation, even when interlocutors operate with the

best of intentions. Hayek's insights about knowledge get translated into standard information theory, and the message gets scrambled. And it goes both ways: sometimes Austrian economists misrepresent mainstream economic theory.^[4]



Theodore Schultz

Enrichment of market-process theory is a good thing, but it comes at the cost of ease of communication. It is not a winning strategy to tell a mainstream economist: "You've misunderstood Hayek. Now read Menger, Mises, Kirzner, Lachmann, Schutz, and slog through *The Sensory Order*." I find all of these works enlightening and even enjoy reading them. But, as Peter Boettke taught me about teaching undergraduates in economics, we need to remember that we Hayekians are the weird ones. The average student is not enamored of economics from day one; we owe it to them to present the subject in an accessible and interesting way. Similarly, the average economist is not already thinking in terms of dynamic coordination and epistemic feedback mechanisms. Piling on additional theoretical baggage does not make those ideas more accessible.

Just as there is a trade-off between the adaptability and stability of institutions in Hayek's work, there is often (though not always) a trade-off between *communicating* Hayek's insights and *enriching* them. Communicating Hayek's ideas typically involves finding connections with mainstream economics. The downside

of this activity is that shoehorning Hayek's ideas into standard information theory generates misunderstandings. Enriching Hayek's ideas allows us to expand their explanatory power, but often increases the barrier to entry for other social scientists. There may be important exceptions to this trade-off—enrichments that simultaneously make Hayekian ideas more broadly accessible—but I suspect those are exceptional cases.

What makes this trade-off unpleasant is that both projects are important. The four of us seem to agree that Hayek's thought merits wider attention. The four of us also agree that Hayek's thought is a starting point for inquiry, not a fixed and complete doctrine. Some scholarly projects will lean more towards communication and translation, while others will lean more toward enrichment. But it is worth thinking about how to negotiate this trade-off both as individuals and, to the extent that we share common goals, as a network of scholars.

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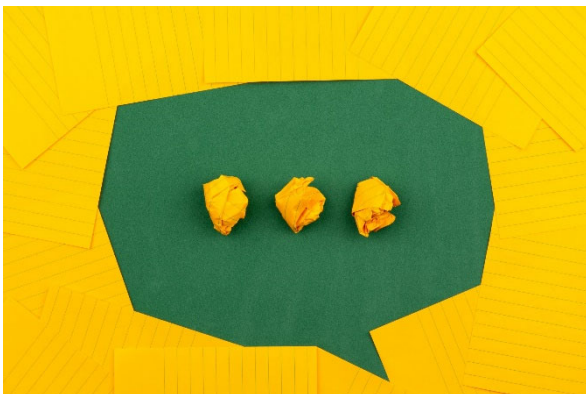
Endnote

^[4.] Rothbard (1956), for instance, argues that the criterion for a Pareto improvement—a change is good if someone is made better off and no one is made worse off—implies a strong case for *laissez faire*. In trade both individuals demonstrate that they believe themselves better off, but government intervention removes that element of free choice. But this argument assumes we start from *laissez faire*. In a world like ours, moving toward *laissez faire* would mean some government officials would be forced to give up powers they would rather keep, being made worse off. The Pareto standard implies a presumption for the status quo, not for *laissez faire*.

COMMUNICATION IS ENRICHMENT

by Roger Koppl

I cannot pretend to understand Professor Martin's distinction between enriching and communicating Hayek's "insights." These are not distinct activities. Martin himself says, "Communicating Hayek's ideas typically involves finding connections with mainstream economics." Right. If I communicate some idea of Hayek to mainstream economists, I must show the reader that it matters to them. But that means that I must somehow introduce the Hayekian idea to the reader's existing, putatively non-Hayekian, framework of analysis. Hayek's ideas must meet their ideas. But once Hayek's ideas start to rub up against the reader's ideas, they are sure to have sex. As Matt Ridley (2010, 6) has said, "At some point in human history, ideas began to meet and mate, to have sex with one another." And that intercourse will enrich me and my reader both, at least if I'm doing it right. Even before I can attempt such an enriching communication of Hayekian "insights," I must have engaged them myself. But that means some earlier idea of mine and the previously unknown idea from Hayek will have been rubbing up against one another and, if I have been serious in my studies, ravishing one another thoroughly. Thus, the very Hayekian idea I might wish to communicate to another scholar is already not Hayek's idea at all. It is the bastard child of Hayek's idea and some previous idea of my own. And if I'm doing it right, it will enrich the family of Hayekian ideas – and the family of non-Hayekian ideas as well.



Let's see how this works with an example. Adam Martin has written a beautiful and valuable essay entitled "Degenerate Cosmopolitanism." (2015) In this work, Professor Martin defends cosmopolitan liberalism and polycentric order by appealing to the technical notion of "degeneracy" that originated in biology. (In *Expert Failure* I suggest we start calling it "synecological redundancy.") Degeneracy is "the ability of elements that are structurally different to perform the same function or yield the same output" (Edelman and Gally 2001, 13763). Following Wagner (2006), Martin imports this notion from biology and brings it to political economy. Ideas are having sex. And Martin uses the idea to defend relatively concrete policy proposals such as more-open borders. He thus communicates *and* enriches the ideas of polycentrism and cosmopolitan liberalism. In other words, Martin does not practice what he preaches (the separation of enrichment and communication), and it's a good thing he doesn't. Adam *believes* that communication and enrichment are separate things. But his own (very fine) scholarship on other topics shows they are not.

Martin acknowledges that there may be "enrichments that simultaneously make Hayekian ideas more broadly accessible." But, he says, "I suspect those are exceptional cases." I would say, on the contrary, that it is only by enrichment that we can hope to communicate. And I would point out, further, that only enrichment allows us to *ourselves* understand that which we might propose to communicate to others.

Adam might object that he meant something else by "enrichment." Maybe. He does say, "It is not a winning strategy to tell a mainstream economist: 'You've misunderstood Hayek. Now read Menger, Mises, Kirzner, Lachmann, Schutz, and slog through *The Sensory Order*.'" This seems to be a brief against playing hard to get. I quite agree. And I deny playing hard to get or advising others to do so. Earlier in this discussion I said, "We must continually connect our existing tradition and framework to recent developments and current science." Nor do I think Steve Horwitz has been too shy to connect his more or less Hayekian ideas to modern

developments. For example, he relies on evolutionary psychology in his recent book *Hayek's Modern Family*. (Horwitz 2015)

Maybe Adam meant to warn us against too heavy an emphasis on the history of economic thought. I don't know if "Austrian" economists in general give too much, too little, or just the right amount of attention to history of thought. I would note, however, that economists who do not practice the history of economic thought are less likely to make progress on unsolved problems and more likely fall into old errors or shallow thinking. As Peter Boettke (2002, 354) has said, the "human sciences in general have mainly progressed through an extended dialogue between past and present." Presumably, however, Professor Martin was not telling us to do less history of thought. If so, I would protest that the other participants in this discussion, Boettke, Horwitz, and me, have not failed to give our attention to current issues in political economy.

In the end, I confess, I cannot understand what Adam's trade-off is supposed to be. Until further notice, then, I will deny that there is a trade-off between communication and enrichment of scholarly ideas. And I will continue to feel happy and relieved that Adam does not practice what he preaches in this regard.

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COMMUNICATION AND ENRICHMENT IN THE SCIENCES OF MAN (AND THE SCIENCES OF COMPLEXITY)

by Peter Boettke

Mises was a methodological dualist. Hayek was more or less a methodological dualist by degree. Whereas Mises believed the method of the social sciences was completely distinct from the method of the natural sciences, Hayek thought they differed by degree and the degree turned on the existence of *knowledge from within*. (We are what we study.) This is not necessarily a point of extreme disagreement between them once we account for the implications as laid out in say Hayek's 1940 essay "The Facts of the Social Sciences" or his 1952 book *The Counter-Revolution of Science*. Both Mises and Hayek also argued that the sciences of man were sciences of essential complexity.

It is important to highlight these methodological positions because they have profound implications for the question regarding communication and enrichment and the promise and perils of viewing enrichment through communication.

Adam Martin forces us to consider the tension-laden trade-offs we face in both our approach and our substance. He is making an important point. Richard Langlois (1986) wrote an important paper years ago, "Coherence and Flexibility: Social Institutions in a World of Radical Uncertainty," that has been underutilized in the literature to address the institutional trade-offs in Hayek's writings that Martin identifies. So perhaps we can pursue that in the follow-ups.

more humanistic social sciences and the humanities are our natural methodological communication partners, but they are often allergic to basic economic reasoning and the arguments for liberal political and economic institutional arrangements. So whom to talk to? And whom are we to listen to and learn from?

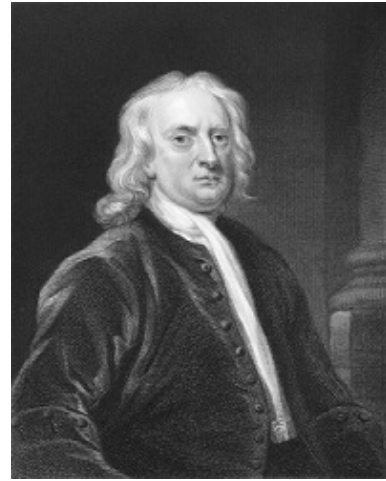
Well, if we are true to the methodological teachings of Mises-Hayek, we must place a priority on human intentionality and the meanings embedded in social institutions. The Mises-Hayek approach compels the theorist to account for both agency and structure, and applied work must never lose sight of the complex web of relationships and interconnectedness that emerges in that play between agency and structure. If we fail to account for human purposes and plans, and the meanings attributed, we end up committing the first error on a long path of errors that results in scientism and the charade of acting as if something is scientific because it looks like chemistry or physics, even though the science being pursued cannot in principle be practiced that way without losing its very object of study – man in his ordinary conduct of life. We must insist to our conversation partners that economics is a *human science* and a *social science*, and any approach which diminishes the human subject and the social aspects does not enrich, but impoverishes, our science.

IT'S NOT EASY BEING HAYEKIAN

by Roger Koppl

Hayek's epistemic institutionalism is hard, I think, because it combines two things we have trouble thinking about in a *scientific* way: 1) the division of knowledge and 2) human meanings. Boettke's opening essay addressed the first thing, the division of knowledge, and his last comment addressed the second thing, human meanings. It is hard to think about these things in a scientific way because our chief exemplar ("paradigm" if you wish) of "science" is Newton's great system. As

Stuart Kauffman (2014, p. 267) has said, "Newton taught us how to think."



Sir Isaac Newton

Newtonian physics (however broadly or narrowly we interpret that phrase) is about a unified viewpoint, that of the observer. In economics, by contrast, we have *many* points of view, those of the "atoms" of our analysis, the many persons in society. (Simmel 1910) We have *humans* interpreting the world and acting, perhaps freely, in it. In physics, there are no people. Matter does not talk. (Machlup 1978) And, relatedly, there is no division of knowledge in physics or multiplicity of interpretations. One physicist may interpret their topic differently than another, but the object of inquiry does not *contain* multiple viewpoints. Nor is knowledge about that system distributed across the system.

In the following table I classify systems according these two dimension of dispersed knowledge and human meanings. A field of inquiry may study systems that do contain a division of knowledge or systems that do not contain a division of knowledge. A field of inquiry may study systems that do include humans or systems that do not include humans. The table also gives an example of a field of inquiry for each of the four types of system possible under this humble classification.

	There is a division of knowledge within the systems studied	There is no division of knowledge within the systems studied
The systems studied include humans	Economics	Psychology
The systems studied do not include humans	The theory of distributed computing	Physics

We are pretty good at physics. We know how to conduct a scientific study of systems in which there is no division of knowledge and no humans within the system. In the figure above, economics is at antipodes to familiar physics. The systems studied include both humans and a division of knowledge. If Kauffman was right to say, "Newton taught us how to think," then perhaps it is not surprising that we struggle with systems so far from physics.

But if economics is so far from physics, why do so many economists try to use the methods of physics? One might, I suppose, rail against this move, upbraiding foolish economists for using inappropriate methods. And Hayek wrote an important book criticizing the "slavish imitation of the method and language of Science" in the social sciences. (Hayek 1952) Notice, however, that he did not criticize the *use* of the methods of physics, but only the "slavish imitation" of methods developed in other fields. Why the qualification? Why not just smash the use of methods from physics when physics might seem to be the very opposite of economics? I think the answer has to do with what Hayek thought to be the very reason for social *science* in the first place. Hayek taught that it is only spontaneous order and unintended consequences that create the need for social science in the first place. Our core *scientific* question is how unplanned order is possible. But precisely because the order in a spontaneous order is unplanned, it has no human meaning. In this sense the order is "mechanical" and not meaningful. Economics, therefore, can in fact use methods first developed in physics. The great example here is general equilibrium theory, whose methods were *explicitly* borrowed from "Newtonian" physics.

This wrinkle about spontaneous order makes it even harder to know how we are to have a science of society. On the one hand, our object of inquiry contains

a division of knowledge and human meanings, which carries us far from the familiar methods of more-or-less "Newtonian" physics. On the other hand, the actions of people within the systems we study generate unintended orders, which, precisely because they are unintended, have a certain similarity to the sorts of systems studied in physics. Economics must somehow span the great divide between C. P. Snow's two cultures of the sciences and the humanities. (1959) It can be done, and Hayek is my leading example. But it's not easy.

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HAYEK, THE HUMANITIES, AND LIBERALISM

by Steven Horwitz

It's interesting that in the latest exchanges here we seem to have moved away from "Hayek's Epistemic Liberalism" to "Hayek's Epistemic Economics." In Pete's recent contribution he follows up on Adam's and Roger's points about how we communicate Hayekian ideas and to whom we should be communicating them. Pete rightly notes that one-half of the trade-off we face is that our natural conversation group in economics sees us as methodologically out of sync, if not deeply suspect, even as they are closer to us on the kinds of questions we find

interesting. By contrast, the group of scholars to whom our work's emphasis on meaning and intelligibility would be most congenial finds our liberalism to be problematic. So indeed, to whom should we be talking?

I think the answer is that we have to find a way to talk to both groups, though for different reasons. In short, while economics will always be central to Hayekian epistemic liberalism, we need to acknowledge that economics is necessary but not sufficient to fully understand the nature of the liberal order and why it is good. We need the contributions of things like psychology (evolutionary or otherwise), the other social sciences, and philosophy and the rest of the humanities to really engage Hayek's epistemic liberalism, as opposed to just his epistemic economics.

This is why conversations with historians, literary scholars, and artists are, I think, so important. Hayek's famous quip that no one can be a great economist who is only an economist and that an economist who is just an economist is "a nuisance if not a positive danger" seems applicable here. The long history of liberal thought is one that ranges across all of the areas of inquiry. The link between liberalism and a liberal education is not merely etymological. Liberal education, as contrasted with pre-professional or technical education, was always about cultivating the kind of engaged citizens that could sustain liberal democracies. If we mean it when we say Hayek's vision is one of epistemic *liberalism*, we need a "Hayek for the humanities."



One way to have the needed conversations is to show scholars in the humanities the ways in which Hayekian (and other liberal) ideas have value for the kind of work they already do in their disciplines. What can an

understanding of economics in the Mises-Hayek tradition add to how historians do their work? What could public choice theory bring to the analysis of literary texts and the whole discipline of history? What could the idea of spontaneous order bring to literature, the arts, anthropology, and history? What could good political economy bring to philosophy?

A Mises-Hayek approach could be more appealing to these disciplines than is neoclassical economics. The latter is easily (if too quickly) dismissed by humanities scholars for its assumptions about human motivation and knowledge and its mechanistic portrayal of human social processes. Of course those objections too easily slide into objections to liberal institutions, but that may well be because humanities scholars have never encountered ways of understanding markets that are not guilty of the sins in question. Hayekians might be able to make some headway in the humanities by offering an understanding of how markets operate and why they are good that is rooted in conceptions of human behavior and institutions, and that are examined with methods more congenial to humanities scholars.

After all, one of the intellectual lodestars of the humanities these days remains Michel Foucault, who at the end of his life was suggesting that people needed to read Mises, Hayek, and other liberal scholars to better understand the liberal social order and the limits of state control.

I am not at all suggesting that we as Hayekian economists neglect the discussions in our own discipline. In fact, one of the great advances since the start of the Austrian revival in the 1970s is that more scholars working in that tradition have been able to get published in very good journals and have their work taken seriously by top scholars working in the mainstream. But if the goal is to forward the broader vision of Hayek's epistemic liberalism, Hayekians are going to have to go beyond the disciplinary conversation in economics and take Hayekian thought to the rest of the academy. No one says that process will be easy, but it's necessary. We will not have a truly liberal intellectual vision, nor a truly liberal society, without contributions from the rest of the social

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ECONOMICS, POLITICAL ECONOMY, AND SOCIAL PHILOSOPHY

by Peter Boettke

I want to thank Adam, Roger, and Steve for reading my original essay and sharing their thoughts and implications of the various arguments on this forum. We had a high degree of agreement, but we found points where we would emphasize different tensions and trade-offs in the argument. There is much to learn about advancing the research program of *epistemic liberalism* within the modern social sciences and humanities. It requires energy, creativity, discipline, and persistence. All the great cases of academic entrepreneurship that I know of – e.g., James Buchanan and the Virginia school of political economy, and Vincent and Elinor Ostrom and the Bloomington school – exhibit these characteristics, especially persistence even as the odds were stacked against them. Buchanan's motto from the 1950s onward was, "Dare to Be Different," and as he would put it, excellence is neither preordained nor a fool's errand, but a choice. Choose to be excellent in your scientific and scholarly pursuits, and don't run with the crowd. I think this is the message I hope that readers, especially young and aspiring scholars and teachers, get from this forum.



Eugen von Böhm-Bawerk

Contemporary Austrian economists have inherited a scientific legacy of excellence in Menger, Böhm-Bawerk, Wieser, Schumpeter, Mises, Hayek, Machlup, Haberler, Morgenstern, and Kirzner. It is a legacy of scientific achievement and scientific recognition that includes Nobel Prizes, distinguished fellows of scientific societies, prestigious appointments, editorships of leading professional periodicals, and international recognition during their lifetimes and after. What makes that tradition unique, and what remains underexploited is this focus on how alternative institutional arrangements impact the social learning of actors within the system. We still need to think through difficult issues of the *knowledge* assumptions involved and the *learning* processes explicated in, as Hayek put it, our study *within systems* and *about systems*.

I recently finished another round of edits on a forthcoming book dealing with *tensions in Hayek*. It consists of papers from PhD students across the social sciences, humanities, and law. In my mind this work demonstrates the amazing possibilities for progress in advancing Hayek's ideas on knowledge, the market order, and spontaneous-order theorizing in general. When you have economists interacting with political scientists, lawyers, philosophers, intellectual historians, anthropologists, and archeologists, and discussing in their unique ways the methodological and analytical implications of Hayek's ideas for their discipline, it is exciting. This conversation is happening, and that is a

sign of progress. Hopefully, our discussion in this forum will have contributed in a small way to this larger conversation as well.

The title I gave to this final entry is actually the subtitle of my forthcoming book on Hayek, which will be published in the Macmillan series "Great Thinkers in Economics." The goal of that book is to explain the evolution of Hayek's research program in economics, political economy, and social philosophy throughout his long career and to demonstrate its essential coherence. As I stated in my original essay here, Hayek did not abandon economics in the wake of his debates with Keynes and the market socialists, but delved deeper into the underlying institutional conditions, challenging the habits of thought that either glossed over those institutional conditions, or disregarded them, and compelling his fellow social thinkers to explicitly account for them -- in terms of the epistemic properties.

Adam Martin's final contribution invoked my old teacher Kenneth Boulding's "After Samuelson Who Needs Smith?" to put forth his own challenge "After Acemoglu Who Needs Hayek?" It is, for the historian of ideas, a brilliant question. That vast majority of economists today -- as at the time that Boulding asked the original question -- would answer, "We don't." Science advances through tombstones, so whatever was scientifically relevant in Smith (Hayek) is embodied in Samuelson (Acemoglu). But that cannot be quite right because otherwise Acemoglu would not have been a scientific advance over Samuelson by rediscovering aspects of Smith-Hayek about institutions and their impact on economic performance through time. Hayek was the 20th-century Smith -- explicitly and implicitly -- in that he reached back into the Scottish Enlightenment to draw inspiration for his reconstruction of the liberal project in political economy and social philosophy. In doing that, as he said repeatedly, he was merely picking up from Smith and Hume and their emphasis on that institutional configuration that would channel human behavior toward realizing the common good through the ordinary behavior of individuals. What Boulding (and now Martin) want us to see is that writers like Smith and Hayek are

part of our "extended present" precisely because the "evolutionary potential" of their ideas has not been exhausted. We need Smith and Hayek because their ideas still speak to us about fundamental issues of concern for us today that we don't get in reading Samuelson or Acemoglu. This is how the history of ideas can become an important input into contemporary theory development.

It is precisely in Hayek's epistemic institutionalism that this evolutionary potential lies, but it does represent a methodological, analytical, and ideological challenge to prevailing practice that creates its own unique set of difficulties which we all talked about. Why does methodology matter so much? Because it impacts not only what is considered the "good questions" to ask of a science, but also what is considered a "good answer." It ultimately determines not only which ideas are considered legitimate, but which get incorporated into the common knowledge of economists, political economists and social philosophers. Koppl's dumb/dumb economics, Horwitz's attention to mind and society, and Martin's emphasis on the trade-offs between coherence and flexibility of institutions all demand scholarly attention and pursuit in the details if we are to make advances. It is time that economics, political economy, and social philosophy took this Hayekian turn.

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