

## Friedrich Hayek: Austrian Economist

A review of Alan Ebenstein's *Hayek's Journey* and Bruce Caldwell's *Hayek's Challenge*

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Friedrich A. Hayek was an Austrian economist. Although this is perhaps not the most controversial claim put forward in the history of economics, it is one that needs to be repeated and revisited from time to time. Over the last twenty to thirty years, there has been an avalanche of scholarly and popular work on Hayek. The scholarly work was likely prompted by his having received the Nobel Prize in 1974 and the subsequent revival of Austrian economics (and the continuing criticisms of, and searches for alternatives to, the mainstream of modern economics). The popular work reflects the revival of classical liberalism more broadly, both in the world of ideas and in the events of the 1980s and 1990s, such as the fall of the Berlin Wall and the rise of the global marketplace. Hayek's name is invoked as the source of a great number of economic and political ideas these days, both for the better and the worse. Often times, these treatments, especially but not only the popular ones, misunderstand key Hayekian themes. The main reason they do so is that they forget that the entire edifice of Hayek's social and political thought is built upon the foundations of the ideas he first engaged as a young man, those of the Austrian school of economics.

This argument is made clear in the contrast between two recent books on Hayek's thought. Alan Ebenstein's *Hayek's Journey: The Mind of Friedrich Hayek* is a companion volume to his *Friedrich Hayek: A Biography* that appeared a couple of years ago. Ebenstein's volume is not a critical exploration of Hayek's thought, but an attempt to delve somewhat more deeply into Hayek's ideas than he did in the biography and to draw linkages between Hayek and other major thinkers who either influenced him or with whom his work can be contrasted. The chapter titles thus vary between topics, book titles

of Hayek's, and the names of other major thinkers. In less than 250 pages of text, Ebenstein tries to cover a great deal of intellectual ground.

Bruce Caldwell's *Hayek's Challenge: An Intellectual Biography of F. A. Hayek* is the culmination of about twenty years of Hayek scholarship. Caldwell's book, which comprises about twice the length of Ebenstein's, also traces Hayek's intellectual evolution more or less chronologically. However, Caldwell takes on this evolution with a more particular task in mind. Where Ebenstein's book reads like a laundry list of topics that are designed to introduce Hayek's ideas to the newcomer, Caldwell's approaches Hayek with an eye toward what his life's work has to say to economists. The result is that Caldwell provides a clear argument about Hayek's evolution that holds his narrative together, while Ebenstein's book leaves the reader, and certainly the economist reader, wondering just what it was all about. Caldwell's focus is on Hayek's continual return to methodology as central to finding the unifying themes in Hayek's work, but he also rightly situates those methodological, and later psychological, issues in the context of Hayek's immersion in the Austrian school of economics.

In discussing these two books, I want to put forward an argument of my own. Hayek's ongoing concerns with methodology and the nature of human knowledge were the result of him having been on the losing end of the two great debates of the 1930s, the debate with Keynes and the socialist calculation debate. The reasons he was perceived, at the time and for many years after, to have lost those debates had everything to do with the method and content of Austrian economics. In the aftermath of those debates, his continued search for answers to questions about knowledge, science, and the structure of

social order can be understood as his ongoing attempt to figure out why arguments that seemed obviously right to him could not be understood by those with whom he disagreed. This is why, as Caldwell recognizes, Hayek's 1952 book on theoretical psychology, *The Sensory Order*, is so central to understanding the intellectual path he carved. Hayek's work on the nature of the mind is the link between the Austrian economics of his early years and the reconstruction of classical liberalism that dominated his later years. Hayek's diagnosis of the failure of Austrian economics between the wars led him to revisit issues of methodology, knowledge, and the nature of science, which in turn, led him to a reconceptualization of the liberal order. Caldwell's book more or less makes this argument, and Ebenstein's book fails to see it, because Caldwell better understands Hayek's economics and its Austrian pedigree.

### **Ebenstein's *Hayek's Journey***

Ebenstein's (2001) biography of Hayek received a good deal of attention, both in the scholarly journals and popular press. Its strength was that it was one of the few, if perhaps the only, really comprehensive treatment of Hayek's life. In addition, Ebenstein made largely effective use of the Hoover Archives and other primary source material to add texture and context to Hayek's life that had not previously made it into print. To that extent, it was a notable contribution to Hayek scholarship. However, the book's weakness, in the eyes of many Hayek scholars, was how well Ebenstein really understood Hayek's Austrian school approach to economics. On a number of fairly technical issues, Ebenstein did not seem to provide an accurate understanding of what Hayek's position entailed. It is also true that Ebenstein made it clear that he did not *agree* with Hayek's

technical economics, and was fairly skeptical of whether they amounted to a genuine contribution to economic knowledge. However, the claim put forward by some was that agreed or not, Ebenstein just got Hayek wrong in places.<sup>1</sup>

One might expect the concerns raised in those criticisms to be addressed in this companion volume, which promises on the dust jacket flap a “deeper journey into [his] mind” and “an in-depth look at the evolution of his thought.” Unfortunately, neither promise is fulfilled. What we get is a series of “once over lightly” treatments of Hayek’s ideas and books, and a variety of attempts to link Hayek’s thought to major thinkers of his time. In addition, the production and editing of the book get in the way of following the content that is there. One hates to nit-pick, but a book that offers itself as a major treatment of Hayek’s ideas should at least spell his first name correctly on the front cover, specifically the one line, small font blurb for the earlier biography. In addition, consistently misspelling Shackle as “Shakle” as well as repeating significant chunks of text in multiple chapters, suggest a book that was put together in a hurry and insufficiently edited. And in a consistent error that will particularly frustrate readers of this journal, Ebenstein often refers to historians of economic thought as “economic historians.” Such an error might be forgivable in some circumstances, but in a book that should be relying on the secondary literature in the history of economic thought, and presumably one that would be edited by someone sufficiently alert to catch that error, it gives the reader pause for concern about the reliability of the content.<sup>2</sup>

The most frustrating thing about the book’s content is the apparent lack of any unifying theme or argument in the text. Ebenstein often writes a series of sentences or paragraphs that are a collection of declarative statements about what Hayek believed or

did, but what we never get is any sense of what the big picture is. What should one walk away from after studying Hayek's "journey?" Even at the very end of the introduction, where one would logically expect some sort of thesis or argument like this, we get more description of Hayek, with no grander vision. Upon my first reading, I was more than a little surprised when I turned the last page of the introductory chapter, expecting more from an introduction along such lines, only to find that the first numbered chapter began there. Perhaps this problem is magnified by its contrast to Caldwell, who, as we shall see below, has a very clear narrative he wants to give to Hayek's lifework. Ebenstein's book comes across as a series of vignettes of Hayek's own work and its relationships to others. Too often, just as the individual chapters seem to be building toward some larger conclusion, Ebenstein veers off into historical or biographical or personal details that seem only loosely related to the topic at hand. For example, the chapter on "Money and Capital" ends with brief history of Austrian economics in the 20<sup>th</sup> century, while the chapter on "Later Monetary Work" goes from Hayek's late work on inflation to three concluding paragraphs that discuss a profile of Hayek that appeared in a London newspaper and a long quote from Arnold Plant, neither of which have anything to do with Hayek's monetary work.

In reading the advance material and the dust jacket, where it promised "In individual chapters devoted to the great influences on Hayek, Ebenstein looks at" a number of important thinkers, including Keynes, Marx, Freud and others, a reader might anticipate chapter-length treatments of those folks. Instead, we get Marx, Mill, and Freud treated in one six-page chapter. Marx is treated in four paragraphs, Mill gets a little over two pages, and Freud gets five paragraphs at the end. All three of these would have made

excellent material for an in-depth comparison and contrast with Hayek, with serious work on Hayek and Mill being long overdue. A Hayek-Freud investigation would also be of serious scholarly value. But what we get here is barely an appetizer on that count, with a long quote from Hayek taking up most of one paragraph, and no attempt at all to explain Freud's contributions nor a demonstration of why "most of his thought can be relegated to the historical development of ideas" (Ebenstein 2003: 162).

Keynes does get a chapter of his own. However, the vast majority of the chapter is an explication of Keynes' views. A small number of paragraphs touch on aspects of the personal relationship between him and Hayek, but there is nothing about the substantive doctrinal differences between the two. Ebenstein gets Keynes largely right, but one wonders why it was important to lay Keynes' ideas on the table if he was not going to engage in some potentially fruitful comparisons between the two. After a discussion of the publication of Keynes' *Treatise* and Hayek's famous review of it, Ebenstein (2003: 84-85) says, "It is unnecessary to discuss this in depth here, as it appears in many other places." Its appearance elsewhere is beyond dispute, but if one wants to venture into the mind of Hayek, then a discussion of that review and its place in Hayek's thought certainly seems to be warranted. Staying at the level of "Suffice it to say, Keynes favored expansive monetary and fiscal policies, and Hayek did not" (Ebenstein 2003: 85) might work for a reader who has never encountered Hayek before, but for those who have, it is not enough. There's little in the chapter on Keynes that could not be found in any of the numerous biographies of Keynes, and certainly with more depth and attention to the secondary literature. It is simply not clear what these chapters

on these thinkers add to our understanding of the mind of Hayek, when little is done to compare and contrast them, or explore the secondary literature.<sup>3</sup>

On the substance of Hayek's thought, Ebenstein more or less gets things right at the level in which he is engaged. There are two points in particular that are highlights of his treatment of Hayek. One very simple one is his refusal to read Hayek as a "conservative." Although the treatment is brief, and one wishes for more, he does justice to Hayek's postscript to *The Constitution of Liberty* where Hayek articulated his case for why he is not a conservative. What Ebenstein (2003: 154) argues is that Hayek's antipathy to conservatism is related to its, and Hayek's, views of knowledge. In that essay, Hayek rejected conservatism's "propensity to reject well-substantiated new knowledge because it dislikes some of the consequences which seem to follow from it." Hayek's life-long concerns with the generation and communication of knowledge, as well as his commitment to a scientific world-view (about which more below), led him to a commitment to the growth of knowledge and truth before politics. In Hayek's mind, and Ebenstein rightly draws attention to it, this was at odds with conservatism.

One issue that Ebenstein raises briefly also deserves some attention as it is central to Kenneth Hoover's (2003) recent book on Keynes, Laski, and Hayek. In all of the prior biographical work on Hayek, next to nothing was discussed about his divorce and remarriage, despite the many maneuverings and bad feelings that surrounded it. Briefly, Hayek used his move to the US as an opportunity to divorce his wife Hella so that he could marry his first love, his cousin Helene. Ebenstein's discussion gives some background about the machinations Hayek went to, including taking a job in Arkansas for a semester to take advantage of their more liberal divorce laws, so that he could leave

Hella without her consent. There is also some discussion of the apparently meager support Hayek left for his children. In his book, Hoover sees this event as reflective of an underlying psychological disposition in Hayek that explains some of his later more radically anti-state views.<sup>4</sup> Ebenstein, rightly in my view, draws no great conclusions from the events surrounding the divorce. His discussion, however, marks the first real appearance of this issue in Hayek scholarship and it is sure to generate further discussion as more archival materials come to light in response to the story Ebenstein tells here.

In the end, though, the book's greatest flaw is not in its presentation or the other surface issues, but in its lack of a story to tell. After 250 pages, Ebenstein has provided little help in figuring out what the larger meaning of Hayek's work is, either for economists or other intellectuals. This is largely due to a lack of attention to the secondary literature on Hayek. With the exception of a useful, but still mostly descriptive, bibliographic essay at the end, there is little recognition that there are issues of interpretation and theoretical controversies that permeate the contributions that the main text explores. For economists trying to ascertain what Hayek's contribution might have been and what implications it has for the practice of economics, Ebenstein's book will be of little help.

### **A digression on *The Fatal Conceit***

For historians of economic thought, and ideas more generally, as well as Hayek scholars, one of the more fascinating questions addressed in both books is what Caldwell (316) terms "the interpretive puzzle" of *The Fatal Conceit* (1988). There are two intertwining stories about the production of that book that set the context for its ideas.

The first is the evolution of the book itself, from an original project that was to be a grand debate on socialism among multiple thinkers, to a much longer project than the final result produced by Hayek himself that was largely drafted in the early 80s, to the final product of 1988. The second is the unclear role that the then-editor of Hayek's collected works, W. W. Bartley III, played in its authorship. Ebenstein's chapter on the book does an excellent job of exploring these issues, as well as giving the reader a sense of what was in the manuscript chapters of the longer version that never made it to print, including a detailed table of contents for that longer version. Having once had possession of several of those chapters (courtesy of Pete Boettke and Victor Vanberg, the latter of whom was at the Liberty Fund conference in 1982 at which the longer draft was discussed), I can vouch for both Ebenstein's and Caldwell's discussion of them. In particular, both note that there was much more economics in the longer version than in the final version. Both suggest that the deletions were the result of Bartley's editorship. Whatever the cause, the deletion of those chapters is unfortunate because there was much in there of interest to modern Hayek scholars and Austrian economists. Hayek revisited his ideas on competition, macroeconomics, the use of statistics, and the hubris of reason and scientism. It also contained a chapter on "the muddle of the middle" and a final chapter on "underdevelopment and environmentalism," the former of which is a fascinating read in and of itself, and both are interesting evidence about the importance economics had for Hayek even toward the end.

The role that Bartley played in the final version of the book is also hotly contested. In the wake of the very negative reception the longer draft got at the 1982 conference, and in light of Hayek's declining health, Bartley was brought in to edit the

manuscript. The interpretive puzzle is how much of the critical rationalism and group selection themes that permeate the book are really Hayek's. By around 1985, Hayek had, according to Ebenstein (224), most of the first seven chapters ready for publication when Bartley assumed a greater role in the process and began to engage in some very heavy editing and rewriting of the material already completed. By 1987, Hayek began to express the view that the book should appear under both of their names as it had become, according to Ebenstein's reading of letter from Hayek, "as much Bartley's as Hayek's." Ebenstein also offers some evidence about differing writing styles between Hayek and Bartley that points to a fairly heavy Bartley hand in the final product, particularly in its emphasis on Popperianism and evolutionary epistemology. Ebenstein includes Jeffrey Friedman's account of the work he did as Bartley's research assistant in 1986, where Friedman asserts that passages that he wrote for Bartley about how Hayek might have responded to more contemporary thinkers then appeared verbatim in print (228). That a book under Hayek's name would include material written by someone that Hayek never even met certainly poses interpretive difficulties.

Caldwell also has a brief discussion of this set of issues that provides one new piece of evidence to this puzzle. This discussion is not as detailed as Ebenstein's but does reach the same general conclusion: whatever the editing that Bartley did, the core of *The Fatal Conceit* remains true to the themes of Hayek's life-work. For Ebenstein (228), "the essential body of even the published [book] was mostly Hayek's." Caldwell concludes, "two of the themes of *The Fatal Conceit* very evidently derive from Hayek," namely the emphasis on the "conjectural history" of our cultural evolution and the explanation of where Western intellectuals erred in attempting to understand that

evolutionary process (319). The new evidence that Caldwell brings appears in a footnote where he reports on a preliminary computer analysis of parts of the book that compared the prose to sections of *Law, Legislation and Liberty*. The results showed some “definite divergence” between the two books. However, Caldwell also reports that Hayek submitted his English prose to colleagues for correction before he sent work to a publisher, which would make the computer analysis less telling.

The end result of all of this is a book that has to be treated gingerly within the broader scope of Hayek’s work. Ebenstein’s evidence and the story that Caldwell tells about Hayek’s work more generally (to be explored below) both suggest that some of the elements of *The Fatal Conceit* seem at odds with it being true to Hayek’s vision. As more archival material becomes available, some of these mysteries may get greater clarity, but with the two principals both having passed on, disentangling the Hayek from the Bartley will never be complete. In the end, historians of ideas will have to render their best judgments about which parts seem to fit and which parts seem not to, and the accuracy of those judgments will likely correlate highly with the degree to which the interpretive frameworks those historians deploy render Hayek’s corpus intelligible and the ways in which they interpret Hayek’s other works.

### **Caldwell’s *Hayek’s Challenge***

In contrast to the disorganized description that characterizes much of Ebenstein’s book, Bruce Caldwell’s *Hayek’s Challenge* successfully weaves a story of Hayek’s intellectual contributions. In fact, Caldwell’s book is perhaps the best sustained treatment of Hayek’s contributions to economics ever written, and the most important book on

Austrian economics published in at least a decade. In addition to making use of archival materials, Caldwell links the evolution of Hayek's thought to ongoing issues in the mainstream of economic thinking as well as the voluminous secondary literature on Hayek, Austrian economics, and the history of economic thought. There is much that could be said about the various contributions this book makes to Hayek scholarship, but I wish to emphasize three in the discussion to follow. First, is Caldwell's excellent treatment of the historical context for the emergence of the Austrian school. The second is the central role played by *The Sensory Order* in making sense of Hayek's corpus. Finally, and perhaps most originally, Caldwell offers a new interpretation of the evolution of Hayek's methodological views over the course of his career. He views Hayek's shift from the dichotomy of the natural vs. social sciences to the dichotomy of simple vs. complex phenomena as providing a key for understanding Hayek's post-World War II intellectual trajectory.

Caldwell's first five chapters set the stage for the emergence of Hayek's work in the 1920s by exploring the origins of the Austrian school in the 19<sup>th</sup> century. These chapters taken together are a concise, accurate, and historically-contextualized introduction to Austrian economics and many of the issues that Hayek would address during the course of his career. Too much Hayek scholarship does not take seriously the fact that Hayek was, and remained, an Austrian economist throughout his career. Caldwell brings this to the fore by locating Hayek's intellectual context in the birth of the Austrian school in the 1870s and 1880s in the battle between Menger and Schmoller and the younger German Historical School. He also concludes this group of chapters with a discussion of the emergence of positivism and socialism in early 20<sup>th</sup> century Vienna.

These two contexts matter significantly for Hayek's later work. Caldwell's treatment of Menger focuses on his work on the origins of social institutions and its relationship to the *methodenstreit* rather than just on his co-development of marginalism, or even his subjectivism. What is of interest in that debate is that Menger was attempting to show that explanations of historical phenomena required that one bring a theoretical framework to bear on them. One could not just engage in pure description to explain historical processes. As Caldwell argues later, this position of Menger foreshadows the emphasis on theory-laden knowledge that would emerge out of Hayek's work in theoretical psychology. In this way, Menger was trying to "out-history" the Historicists by arguing that to achieve their stated ends of rendering history intelligible, they would have to make use of the framework he laid out in the *Principles*. In doing so, he was also demonstrating how one could explain the emergence and evolution of social institutions and, by implication, other complex phenomena. The historical verdict on who "won" the *methodenstreit* is less interesting than the ways in which it affected subsequent work and how it has come to be viewed since. One notable point raised by Caldwell (74, emphasis in original) is that:

When it had finally died down, the Austrians were known as the subjective utility *marginalists* rather than as theorists who aimed to explain the *origins of social institutions*.

It is the latter description of Menger's project that provides the context for Hayek's work.

Caldwell's chapter on positivism and socialism in turn-of-the-century Vienna provides an important under-discussed piece of the Hayek story. Here he explores the development of Austro-Marxism and the contributions of Schumpeter and Neurath,

including the latter's role as the in-house social scientist of the Vienna Circle. It is in Schumpeter that Caldwell identifies the emergence of positivism as a way of claiming the mantle of science and linking it to the general equilibrium approach of Lausanne, in contrast to the subjectivism of the Austrians. Neurath's belief in the possibility of a moneyless economy planned in accordance with economic statistics and real physical quantities represented a further synthesis of positivism and socialism. His rejection of the subjectivist conceptions of "utility" and "value" was consistent with the logical positivist rejection of "metaphysical" constructs throughout philosophy (Caldwell 2003: 115). It was into this mix of positivism and socialism that Ludwig von Mises's work on the impossibility of calculation under socialism emerged in the early 1920s. Although Mises's original 1920 article was largely aimed at Neurath, as a result of their mutual participation in the Bohm-Bawerk seminar, Neurath was hardly the only person holding a similar position around that time.

The relevance for Caldwell's rendering of Hayek is that Mises's critique of socialism was both theoretical and methodological. As Caldwell (119) points out, "Mises's critique of socialism left untouched the philosophical arguments of Neurath and other positivists concerning the metaphysical (hence suspect, if one were a positivist) nature of economic reasoning." Much of Mises's subsequent work in the 1920s and 30s was geared toward making the argument for philosophical legitimacy of the subjectivist approach. Mises relationship with Max Weber and then others in the famed *Miseskreis*, gave him the opportunity to develop a sophisticated view of the social sciences that avoided both positivism and historicism. It was in this period of Mises' work that Hayek entered the picture.

It is in this sense that it is often forgotten that Hayek was first and foremost an Austrian economist. Much of the rest of Hayek's career can be understood as retracing the steps that Mises took before him, all of which were questions that the work of the early Austrians, particularly Menger, had not answered well enough. In particular, one could characterize Hayek's "challenge" as finding a scientific defense of Mises's subjectivism. Or put somewhat differently, could one construct a scientific defense of what positivism dismissed as the "metaphysical?" Although the Austrian project, particular during the post-revival years, has often been couched, by non-Austrians, in terms of a political agenda, the founding generations saw it as a claim about the appropriate methods of economic and social analysis. Whatever the differences between Hayek and Mises, and in my view they are minimal, there is little doubt that on the question of how best to do economics, they were in substantial agreement.<sup>5</sup> Both understood that positivist approaches to economics that depended on removing the "metaphysical" elements of the human mind and human choice would not really grasp the economy as an arena of human action. Treating human beings as one modelled billiard balls on a frictionless surface was an attempt to banish anthropomorphism where it was *appropriate*.

Caldwell's narrative of much of Hayek's subsequent work provides evidence for this view of his project. Hayek attempted to set a subjectivist approach to economics on scientific foundations, thus exposing the unscientific approach of the positivists. In doing so, he was also able to articulate a more modest conception of the task of economics, what Caldwell calls "economic reasoning" in contrast to the "economic modelling" that was to overtake the profession in the 20<sup>th</sup> century. This narrative begins as early as

Hayek's work on the business cycle in the 1920s. Caldwell offers a novel interpretation of Hayek's methodological approach in *Monetary Theory and Trade Cycle* (1966 [1933]). He suggests that it is best read as a response to Adolph Lowe's methodological claim that any analysis of monetary phenomena must use a theory (in contrast to institutionalist approaches then gaining adherents) and that existing equilibrium theories were found wanting, thus necessitating a more "dynamic" approach. Caldwell argues that Hayek rescues broadly equilibrium-oriented theory by introducing money as a phenomenon that breaks the simple relationships of general equilibrium theory yet still allows us to tell a causal story about how economic variables will respond. That is, it enables us to use "economic reasoning" without a tight "economic model." Here is one of the earliest examples of Hayek attempting to sail between the methodological Scylla and Charybdis of theory-less institutionalism and human-less positivism.

In Caldwell's reading, the 1930s were a time of consolidation for Hayek and fellow travellers like Robbins, but were simultaneously a time of transition in terms of the nature of their intellectual opposition. Specifically, Caldwell offers an interpretation of Robbins' (1932) *Nature and Significance* that emphasizes the aforementioned distinction between "economic reasoning" and formal "economic models." Robbins distinguished between "purposiveness" and "perfect rationality," with the former being part of more general economic reasoning and the latter being what transforms economic reasoning into a formal economic model. Caldwell reads Robbins' book as a strong defense of the necessity of the former for any social analysis. Combined with Hayek's attack on historicism and institutionalism in "The Trend of Economic Thinking," (1933) the two LSE professors had both solidified the place of economic reasoning and

demonstrated why its results are so strongly resisted. However, by the time this “one-two punch was complete” (199), historicism and institutionalism were largely gone and positivism was the new up-and-comer.

At the same time Hayek was enmeshed in the debates with the socialists and Keynes. Much has been written, including much by Caldwell, about the relationship between Hayek’s participation in those debates and his later work. In *Hayek’s Challenge*, Caldwell takes the opportunity to add some nuance to his earlier arguments about these various relationships. “Economics and Knowledge” (1937) remains the turning point, but not because it was a methodological shift per se, or that it should be read as a contribution to both debates, which it should, but that it is the beginning of Hayek’s realization of what were the issues at stake in these two debates. What Hayek saw as the common element in them was best represented by those whom he called the “men of science:” those who thought that the tools of science could be put in service of improving human social arrangements through planning the economy in some sort of way. As Caldwell notes, by the late 1930s and into the 40s, it was this (pseudo)scientific mentality that had become the mainstream intellectual force in opposition to classical liberalism of Hayek.

It is here that Caldwell’s reading of Hayek is both at its most careful and revealing. Caldwell offers a rendering of Hayek’s work on “scientism,” theoretical psychology, and evolutionary theory that provides a new way of seeing Hayek’s methodological and theoretical contributions. By the early 1940s, Hayek had envisioned a grand project that would explore “the abuse and decline of reason in modern times.” It was to be a project largely in the history of ideas, up through and including fascism and

communism in the 20<sup>th</sup> century (240-1). However, that project, at least as a unified whole, was abandoned, although pieces appeared in various places. The most important of those pieces was the essay on “Scientism and the Study of Society” that appeared in 1942-44 in three parts.

Caldwell’s interpretation of the scientism essay is that it is Hayek’s first response to the “men of science” in that it attempts to carve out the distinct role and methods of the social sciences, and why the positivistic methods then thought to be characteristic of the natural science cannot be applied to the study of humans. As Caldwell notes, there are both old and new arguments in that piece. The new arguments, however, centered around themes that harkened back to Hayek’s student days when he was interested in, and wrote about, theoretical psychology. In particular, the scientism essay is where some of the ideas that would see a more complete form in *The Sensory Order* (1952) first appear in Hayek’s published work. In a footnote, Caldwell provides evidence that Hayek linked the essay and the book in comments he made in later years. What is central to Caldwell’s story is that the arguments from psychology provided a way for Hayek to argue against the “men of science” with “what he thought were truly scientific arguments” (260). That is, Hayek aimed to show that the belief that the social world could be redesigned with the methods of science was itself unscientific because it assumed as a matter of faith that the progress of knowledge could be “planned.” The scientific understanding of the mind Hayek offered in *The Sensory Order* showed that the supposedly scientific methods of the “men of science” could not be applied to society. This project parallels Menger’s aforementioned attempt to argue that his approach made for better history than that of the historical school because it recognized that one could not do good history without theory.

Both Menger and Hayek argued that their views were more true to the stated aims and values of their opponents than were the views of their opponents.

The themes of *The Sensory Order* have been covered in other places, and Caldwell's summary in chapter 12 is concise and accurate. The key result he notes is that Hayek's view of the mind as a classification system means two things: 1) all knowledge is interpretation, or all facts are theory-laden, because what it means for the mind to "know" is to have already classified objects before we are consciously aware of them; 2) the mind can never "step outside" itself to be able to know its operation in full, thus mind cannot fully explain mind. The implications of these two results for social science are highly significant as they undermine reductionist, positivist, and behaviorist approaches that deny the existence of mental events that we are unable to explain in purely physical terms. Hayek offers a scientific defense of the propositions that a) there are no "brute" facts and b) that even though we know that the mind is ultimately a physical phenomenon, we are unable to describe those processes in detail, which means we must make reference to "purpose" and "intentionality" and all the other categories of a distinctly social-scientific approach. What is crucial is that making reference to such terms is not *unscientific* but *more* scientific. It is the "men of science" who are "unscientific," or engaging in superstition about the power of science.

One other way of reading this period in Hayek is that he was, as Caldwell has termed it here and previously, arguing for a "scientific subjectivism." The role of *The Sensory Order* in Hayek's lifework is as the science that could "build a case for a subjectivist approach in economics" (260). It is here where Hayek the Austrian economist cannot get lost in the shuffle. If it is true that one good reading of Hayek is

that he was trying to offer better answers to the questions Menger and Mises had posed than they had themselves, then Caldwell's treatment of Hayek's work on scientism provides evidence for that reading and for the claim that Hayek did, in fact, provide better answers. It is also important that the abuse of reason project and the foray into the science of the mind come on the heels of Hayek's dual defeat in the two major debates of economics of the period. Hayek's frustration was likely not just at losing the debates, but that he could not get his opponents to understand or respect the position he was taking with respect to what economics could and could not do. That frustration manifests itself in the trio of papers on knowledge of the late 30s and mid 40s (1937, 1945, 1946), which address the frustration at the level of economic theory. But what seemed to become increasingly clear to Hayek is that the trouble was deeper and that he would have to revisit questions of the methodology of the social sciences to get at the issues that were foundational in the debates over socialism and Keynes. It was those questions of methodology raised by the scientism essay that led, as Caldwell argues, to the work on the mind. What I would emphasize is that the work on the mind cannot be divorced from the Austrianness of Hayek's economics. A thoroughgoing subjectivism would lead one to explore the issues Hayek did, and it was certainly a step forward in the Austrian tradition to find out that subjectivism is supported by the science of the mind.

One other possible point of connection should be mentioned, and it is one Caldwell does not address. There is a striking resemblance between Hayek's theory of the mind and the Austrian theory of capital. The idea of the mind as a classification device, the ways in which a different object can be classified in multiple ways, the idea that those different classifications depend upon the purpose at hand, and the notion that

the mind is a complex structure capable of multiple forms of connections and adaptations all are reminiscent of Austrian capital theory. Of course Hayek was working on *The Pure Theory of Capital* just before turning to the scientism essay and the broader issues, and his stated reason for giving up on the larger two-volume project on capital he originally envisioned was precisely that it got too complex to treat in detail.<sup>6</sup> These issues could be explored in more detail, including finding any historical material where Hayek makes such a connection. Still, given how central the role of the Austrian theory of capital was to both debates that he lost, it should not be a surprise that working further on capital theory would lead him to reconsider fundamental issues of subjectivism, methodology, and complexity.

The final piece of Caldwell's puzzle is the move toward evolutionary theory that takes place in the 1950s and 60s. He provides evidence of Hayek's interaction with evolutionary theorists at the University of Chicago during the period Hayek was on the Committee on Social Thought, including the relationship with Michael Polanyi that produced the first appearance of "spontaneous order" in Hayek's work. What is of interest to the main narrative is that it is here that Hayek begins to explore the relationships among rules, social orders, and evolution. Caldwell's conclusion is that exploring these issues of complexity and order, and the role of rules in making complex orders possible, shifted Hayek's methodological position from distinguishing between natural and social phenomena to simple and complex phenomena. Thus, Hayek now sees more in common between biological evolution and social evolution than he does between, say, the simple phenomenon of the family and the complex phenomenon of a market, even though the latter are both social phenomena. This shift in Hayek's thinking

is key to his work on issues of mind, rules, and order in the 50s and 60s, and Caldwell has quite rightly, and creatively, identified both the content and source of that shift. In line with his roots in Austrian economics, this newer Hayekian distinction also harkens back to Menger's distinction between pragmatic and organic institutions. Caldwell's understanding of Hayek's own evolution completes the circle, as Hayek is now understood as providing more and better answers to the questions that he was first "raised" on as an economist in Austria of the early 20<sup>th</sup> century.

Caldwell makes a conscious choice not to explore Hayek's work in political philosophy in any great detail. However, the linkage between his main themes and Hayek's later work in political philosophy is fairly straightforward. Hayek's work on the mind leads to his classical liberal politics of constitutionally constrained limited government via the insights of Austrian economics and the spontaneous order theory approach to complex social phenomena. The limits of the human mind imply that we must rely on rules and institutions to guide our action in a world of structural uncertainty, and the limits of our ability to know the details of the human mind imply that we must put rules in place that prevent human beings from acting in ways that would require knowledge that they could not possibly possess. As I have argued elsewhere, "Constitutional rules are the public expression of our self-recognition of the limits to our reason" (Horwitz 2000: 37). Furthermore, given the tacit nature of a fair amount of human knowledge, effective institutional solutions to uncertainty are most likely to emerge from unhampered human interaction. All of this together leads to the sort of political philosophy outlined in *The Constitution of Liberty* (1960) and the three volumes of *Law, Legislation, and Liberty* (1973, 1977, 1979).

## Conclusion

As opposed to the pastiche of ideas Ebenstein offers, Caldwell gives us a clear narrative of Hayek's work. There is in Caldwell's Hayek a clear line of development from the work of the 30s, through the 40s, 50s, and 60s. Hayek's vision of economics is one that begins with the vision of the human mind he outlines in the 40s and 50s, which serves as a way to undergird the subjectivist vision of economics that he outlined in the 1930s. In addition, his later work on the market order as a complex phenomenon, and the methodological argument that complex phenomena can only be understood by "explanations of the principle" and not by describing the details, links back to what Caldwell identifies as the "economic reasoning" approach of Hayek and Robbins in the 1930s. To close the loop, the mind itself is a complex phenomenon only comprehensible in terms of explanations of the principle. Minds are only capable of such explanations of the principle, which is more or less what Robbinsian "economic reasoning" provides to economic theorists. As Caldwell hints in the last few chapters, his understanding of Hayek's challenge charts out an alternative vision of economics, one that is more modest in its substitution of economic reasoning for economic modelling and in its recognition of limits of human reason and intentional design in its theory of rationality and human action. By implication, it becomes an economics more concerned with the roles of institutions in overcoming those limits and the corresponding uncertainty of action in the social world. Caldwell's cataloguing of possible Hayekian directions for economics in the penultimate chapter is a call for pluralism and gains from exchange among many alternatives to the mainstream.

Lastly, Caldwell's book stands as excellent evidence for the argument he raises at the very end of the book for the need to rescue history of economic thought in our discipline. One key role of the history of economic thought is to explore alternative approaches to economics - the ones that might have been. The historian need not engage in rational reconstruction nor in Whig history. The answers are neither all in the past nor crystallized in current practice. Rather, critical interrogation of our past is a way to understand what roads we have and have not taken and why. A broad understanding of historical context is necessary to answer those questions, and work like Caldwell's is evidence for the importance of history of economic thought. Caldwell's *Hayek's Challenge* is finally a challenge to the profession to both understand its past and rethink its future. Time will tell how the profession responds, but after reading this outstanding contribution, no one can say the challenge has not been clearly and forcefully laid down.

## Notes

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<sup>1</sup> The most egregious example of this was Ebenstein's inability to portray accurately Hayek's view that capital is "heterogenous," which Ebenstein (2001: 83) understood as meaning that capital "cannot be put to many uses." As distinct from purely homogenous capital, such as in the Knightian framework, then yes, capital in the Austrian view cannot be put to *any* use. But Ebenstein's definition is misleading in that the whole point of calling capital "heterogenous" was to emphasize that it has *multiple but not infinite* uses, and that capital-related decisions, especially in the Austrian understanding of the business cycle and socialist calculation, could not assume zero costs of capital conversion. The point in Hayek was that capital *could* be put to multiple (though perhaps not "many") uses. Ebenstein's discussions seem to take heterogenous to mean much more akin to highly-specific capital than Hayek ever suggested. Discussions on the Hayek-L email list in April of 2003 cover these concerns quite nicely, e.g.,

<http://maelstrom.stjohns.edu/CGI/wa.exe?A2=ind0304&L=hayek-l&P=R4512>.

<sup>2</sup> Another example of a somewhat unforgivable, and somewhat mysterious, error is Ebenstein's use of "The Abuse and Decline of Knowledge" project as the name for what both Hayek and Caldwell consistently call "The Abuse and Decline of Reason" project. What makes the error so mysterious, is that the subtitle of Hayek's (1952) *The Counter-Revolution of Science* is "Studies in the Abuse and Decline of Reason," not to mention the fact that "the abuse and decline of knowledge" would be a strange title for a thinker so devoted to the growth of knowledge. Lastly, Ebenstein gets it right in his 2001 book, which makes the error even more inexplicable.

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<sup>3</sup> Ebenstein also uses a very user-unfriendly citation style. In-text quotes are just left in quotes with no notation after them, and the reader must turn to the back of the book, find the appropriate chapter, and then look for the page number followed by the first and last parts of the quote separated by an elipsis. After that comes a full citation to the source. This seems a hybrid of various standard styles that captures the worst of several of them. In addition, the book has a index of names but no general index of subjects. In trying to find the discussion of Hayek's divorce, for example, one would have to know that Hayek's first wife's name was "Hella" and go from there.

<sup>4</sup> I raise some criticisms of this view in my review of the book in Horwitz (2004a).

<sup>5</sup> On the commonalities between Mises and Hayek, see Boettke (1998), Horwitz (1998), Koppl (2002), and Horwitz (2004b). For a contrary view, see Salerno (1990).

<sup>6</sup> His later endorsement of Lachmann's (1978) short book on capital states that it captured the essence of the ideas he was aiming at in *The Pure Theory of Capital*. One is tempted to say that Lachmann expressed various explanations of the principles that undergird the capital structure, and that such an effort is all that anyone can expect in the face of a complex phenomenon such as the capital structure.

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