

The Cambridge Companion to
HAYEK

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Introduction

Friedrich August von Hayek (1899–1992) was almost certainly the most consequential thinker of the mainstream political right in the twentieth century. It is just possible that he was the most consequential twentieth-century political thinker, right or left, period. The apparent triumph of global capitalism at the dawn of the twenty-first century owes as much to his influence on policymakers and shapers of public opinion as it does to that of any other intellectual figure. Hayek's semi-popular book *The Road to Serfdom* (1944) was a key text of the emerging New Right, a movement whose influence ultimately made possible the elections of Margaret Thatcher, Ronald Reagan, and George W. Bush. Reagan claimed that his thinking on economics was directly influenced by Hayek's writings. Thatcher famously tried once to end debate on Conservative Party policy by slamming a copy of Hayek's more dryly academic tome *The Constitution of Liberty* (1960) down on the table and exclaiming, "This is what we believe!" Even Winston Churchill, long before the New Right's ascendancy, was moved by an (apparently superficial) reading of *The Road to Serfdom* to warn that the election of his opponent Clement Attlee in 1945 might result in the institution of a "Gestapo" to enforce Attlee's socialist economic policy. (Many suggested at the time that this rash charge might have cost Churchill the election; Hayek's influence on politicians did not always entail their political success.) A John Rawls or Isaiah Berlin, however much greater was the esteem with which such thinkers were regarded by most of their academic peers, could only envy such direct impact on practical politics.¹

No doubt there are many who would regard Hayek's influence, and especially his influence on the political right, as a dubious

distinction. But whatever one's opinion of Hayek's political views, no such misgivings can reasonably derive from a dispassionate assessment of the quality of his intellectual output. Hayek's technical work in economics, the field in which he first made his reputation, garnered him the Nobel Prize in 1974 (though he had to share it with his ideological opposite Gunnar Myrdal). Together with his friend and mentor Ludwig von Mises, he developed what is widely regarded (including by many who are otherwise unsympathetic to his views) to be the decisive argument against the very possibility of a socialist economic order. This work eventually led him beyond economics into a wide-ranging examination of the nature of liberal capitalist society, and of the nature of complex systems in general, whether economic, social, or otherwise. The result was an intricate system of thought encompassing worked-out theories not only in economics and social and political philosophy, but also in the philosophy of law, the philosophy of science, and cognitive science. In the last-mentioned of these fields, Hayek is now recognized as having invented, contemporaneously with but independently of D. O. Hebb, the connectionist or parallel distributed processing model of the mind that has become the main rival to the long-dominant symbolic processing paradigm. In the philosophy of social science, he is acknowledged to have made an important contribution to our understanding of the nature of explanations of complex social phenomena. In general social and political theory, he is regarded as the outstanding twentieth-century representative of the classical liberal tradition of John Locke and Adam Smith.² Especially in the European context, but increasingly also in the United States, he appears to be regarded by many intellectuals of the left as *the* thinker of the contemporary mainstream right with whose thought they need to come to terms.³ Despite a long period in the intellectual wilderness following the offense he caused to prevailing sensibilities by publishing *The Road to Serfdom*, there are signs that Hayek is at long last being welcomed, at least tentatively, into the canon.⁴

The breadth and quality of his work are two reasons for this. Its depth and style are two others. Robert Nozick, who derived much of his libertarian philosophy from his reading of Hayek,⁵ had a greater direct influence than Hayek himself did on contemporary academic political philosophy, at least within the analytic tradition. But even Nozick's influence has waned, in large part because of his failure to

answer his many critics or develop his political philosophy beyond the inchoate state in which he had left it in *Anarchy, State, and Utopia* (1974), and thereby to generate a system as impressively worked out as that of his egalitarian liberal rival John Rawls. Hayek's star has risen in large part because he is not so easily accused of dilettantism; the many years he spent outside the mainstream academic conversation were devoted precisely to developing a thorough and systematic description and defense of a classical liberal economic and political order, first given full-dress presentation in *The Constitution of Liberty* and culminating in what is perhaps his greatest work, the three-volume *Law, Legislation, and Liberty* (1973, 1976, 1979). Hayek also presented his arguments in a fashion calculated to appeal to the secular and scientific (indeed, scientific) temperament of the majority of his intellectual peers, giving him an advantage over other recent thinkers of the right. Conservative intellectuals of a religious bent could more easily be accused (however unjustly) of merely presenting secular rationalizations for positions whose true motivation was theological; while even a genuinely secular conservative philosopher like Michael Oakeshott, though widely respected, was bound, given his more literary style and eschewal of theory, to be dismissed by his ideological opponents (again, however unjustly) as an obscurantist. Hayek also consistently avoided polemic, and never attributed anything but the best motives to his opponents. Unlike more famous twentieth-century defenders of capitalism like Ayn Rand, Hayek cannot be written off as a shrill ideologue or crude popularizer.

That Hayek's work deserves the attention of philosophers in particular should be evident when it is remembered how central to it is a distinctive conception of the nature of human knowledge. For Hayek, there is nothing so important to understand about our knowledge as that it is limited, and limited severely wherever it concerns inherently complex phenomena like human minds and human social institutions. Moreover, even the knowledge we do have is fragmented and dispersed, any particular aspect of it directly available only to particular individuals and groups rather than to society as a whole or to its governmental representatives; and much of it is necessarily tacit, embodied in habits and practices, "know-how" rather than data that might be recorded in propositional form. Much of Hayek's work constitutes a sustained reflection on the

implications of these facts. In economics, the lesson he drew was that prices generated in a free market encapsulate this otherwise ungatherable information and make it available to individuals in a way that makes it possible for them to act so as to ensure as rational an allocation of resources as is practically possible. In law, he concluded that the piecemeal and organic development of the common law, wherein law is discovered in precedent and settled expectations rather than created in an act of legislation, is the paradigm of a rational and humane legal order. In politics, he held that only abstract and largely negative rules of conduct could reasonably be enforced by government within a free society, given the impossibility, as he saw it, of settling objectively the many disputes over matters of value that characterize modern pluralistic societies. In ethics and social theory, he came to believe that tradition played a role similar to that of the price mechanism, embodying the dispersed and inchoate moral insights of millions of individuals across countless generations and sensitive to far more social information than is available to any individual reformer or revolutionary, so that the radical moral innovator suffers from a hubris analogous to that inherent in socialism. In general philosophy, he took the view that there are inherent and insuperable limits on the mind's capacity to grasp the principles governing its own operations, the bulk of which must remain forever unconscious and inarticulable.

This epistemological emphasis in Hayek's work gives his defense of market society certain advantages. Adam Smith's famous appeal to the invisible hand is often interpreted (however mistakenly) as an apologia for unrestrained greed. The trouble with his argument, or so it is said, is that it assumes that human motives will always be base, so that his claim that market incentives impel us to serve others out of our own self-interest is irrelevant if human beings can be taught to act on more altruistic impulses. Hayek makes it clear that the case for the market has nothing essentially to do with motives. Even with the best wills in the world, we would still need the guidance of prices generated in a competitive market (and the information encapsulated therein), given our incurable ignorance of all the relevant economic circumstances. Furthermore, while Smith's emphasis on the advantages of the division of labor might seem to imply that advances in technology, and in particular the development of ever more ingenious labor-saving devices, might eventually make his case for

the market obsolete, Hayek's emphasis on the division of *knowledge* – its inherently scattered and ungatherable character – indicates that the need for market prices and incentives is as unaffected by contingent technological circumstances as it is by motives. This is only reinforced by the tacit element in economic knowledge; for to the extent that such knowledge is embodied in practical wisdom and concrete experience rather than recordable data, it is an illusion to suppose that advances in computing technology might solve the calculation problem facing the would-be economic central planner.

It is also worth noting that, to the extent that Hayek's case for tradition rests on considerations analogous to those underlying his case for the market, the advantages of the latter accrue to the former as well. It is tempting to suppose that, while traditional stigmas and taboos might indeed have had some value in discouraging irresponsible behavior within societies harsher and less compassionate than we take ours to be, they can be readily dispensed with in a therapeutic culture like our own, where gentle persuasion rather than stern moral judgment is the order of the day. But as with market prices, the value of tradition primarily lies in the remedy it supplies, not to our purported defects of character, but to our defects of knowledge. It is not because our forebears were hard-hearted that they had to make do with their austere moral rules; rather, they needed those rules, as we do, because they embody more information about actual human needs than is available to any individual, however patient and tender-hearted. Hayek rescues Edmund Burke, no less than he does Smith, from the charge of cynicism, and reformulates in hard-headed scientific terms an argument that unsympathetic critics of Burke have sometimes tended to dismiss as mere romanticism.

These considerations indicate that Hayek was not merely the most influential of recent mainstream right-of-center thinkers, but perhaps the most quintessential as well. For it is typical of New Right thinking to try to combine an emphasis on free markets, limited government, and individual liberty with the encouragement of personal moral restraint and respect for tradition and religion. Hayek's body of thought weaves these themes together systematically, regarding as it does both the deliverances of market competition and those of tradition as the byproducts of similar selection mechanisms or "filtering processes" (to borrow a term from Nozick),⁶ whose rational superiority to the alternatives (the results of central

planning and moral avant-gardism, respectively) derives from their reflecting a far greater range of information about the concrete details of human life. If Hayek explicitly disavowed the label “conservative” in *The Constitution of Liberty*, he also rejected (and in the same book) the label “libertarian.”⁷ Moreover, his later writings exhibited a marked tendency toward moral conservatism, and also, despite his personal agnosticism, toward a commendation of traditional religious belief as a bulwark of the moral preconditions of market society.⁸ A characteristically New Right combination of classical liberal economics and Burkean conservative social theory seems to have been his settled position, and by the end of his life, the label “Burkean Whig” was the one he indicated best characterized his politics.⁹

At the same time, Hayek was never blind to the potential difficulties inherent in this political synthesis, nor dismissive of the serious criticisms of capitalist society and liberal theory presented by thinkers of the left. He explicitly disavowed the ideal of *laissez-faire* and distanced himself from the sort of free market utopianism common among more extreme libertarians. He thought it foolish to pretend that capitalism always rewards those who work the hardest or are otherwise deserving, advocated a minimal social safety net for those incapable of supporting themselves in the market, and had no objection to government taking on tasks far beyond those defining the “minimal state” of Nozick’s libertarianism, so long as this did not result in monopoly and private firms were allowed to compete with government for provision of the services in question. Like Marx, he believed that liberal capitalist society has a tendency to produce alienation, insofar as the impersonal rules of conduct upon which it rests necessarily eschew any reference to a common social end or purpose, and thus cannot satisfy the deepest human yearnings for solidarity. Unlike Marx, he also thought we nevertheless simply have no alternative to capitalism if we want to maintain the level of individual autonomy and material prosperity that are the most prized characteristics of modernity, and that it is naive and dangerous to pretend otherwise. For Hayek, those who would like to combine the autonomy and prosperity with a deeper sense of community are trying to square the circle. We cannot have our cake and eat it too; tragic as it is, we must either choose to follow out the logic of modernity to its conclusion and forever abandon the hope of satisfying those communal desires hardwired into us while we still lived in

bands of hunters and gatherers, or we must return to a premodern form of life and therefore also to a premodern standard of living. There is no third way. Hayek's promotion of a mild Burkean moralism and religiosity would seem to be his way of taking the bite out of this unhappy situation, as far as that is possible; a stolid bourgeois allegiance to what is left in the modern world of the traditional family and the church or synagogue would seem in his view to be all we have left to keep us warm in the chilly atmosphere of liberal individualism and market dynamism.¹⁰

Clearly, Hayek's thought is rich with nuances; equally clearly, it is open to possible challenges on several fronts. Both the nuances and the challenges are amply explored in the essays comprising this volume.

Bruce Caldwell's "Hayek and the Austrian tradition" lays the groundwork for the rest of the collection by setting out the details of Hayek's personal and intellectual background in the Austria of the early twentieth century. Caldwell recounts Hayek's early family life and education, his encounter with the thought of Ernst Mach and the Vienna Circle of logical positivists, and his relationship to the Austrian School in economics and its controversies with other schools of thought. The central themes that dominated Hayek's thinking throughout the course of his life, Caldwell suggests, bear the imprint of his formation within the Austrian tradition.

In "Hayek on money and the business cycle," Roger E. Backhouse provides an exposition of some of the central themes of Hayek's early technical work in economics, including those bearing on his favored explanation of the great depression. He also addresses certain difficulties with Hayek's work, in particular his theory of capital, and compares it with the Keynesian paradigm to which it ultimately lost out.

Peter J. Boettke's "Hayek and market socialism" considers another facet of Hayek's early work in economics, namely his contribution to the socialist calculation debate. Boettke recounts the arguments of Hayek's mentor Ludwig von Mises against the very possibility of socialism, and the arguments deployed by various "market socialists" in the hope of countering Mises' objections. He then shows how Hayek's own position, developed in order to undermine the arguments of the market socialists, expanded upon and deepened Mises' insights in a way that led eventually to his distinctive epistemologically based conception of liberal political economy.

Marx was, of course, the most consequential of all socialist thinkers, and Hayek is regarded by many as a kind of anti-Marx, a guru and theoretician of capitalism who played a role in its defense analogous to that played by Marx in critiquing it. A systematic comparison of the two thinkers is therefore in order, and in "Hayek and Marx," Meghnad Desai provides just this, focusing on their respective analyses of money, capital, and economic cycles.

John Maynard Keynes was Hayek's great contemporary rival, and their disagreements over economic theory and policy are well known. But as Robert Skidelsky shows in "Hayek versus Keynes: the road to reconciliation," the two men had in common a commitment to liberalism and liberal institutions, and to a great extent their differences concerned means rather than ends. Skidelsky's examination of these agreements and differences focuses on what each man had to say about the great depression, the war economy, and the dangers inherent in state intervention, and indicates respects in which sometimes Hayek, and sometimes Keynes, had the better of the argument.

Andrew Gamble's essay "Hayek on knowledge, economics, and society" provides a natural transition from the more economics-oriented topics of the preceding essays to the broad philosophical and political themes treated in the remaining chapters of the volume. Gamble explores the various aspects and implications of Hayek's theory of knowledge, including his critique of what he took to be the excessive rationalism inherent not only in rival positions in economics, but also in most modern thinking about politics, morality, and the social world generally. He also suggests that Hayek did not entirely succeed in extricating himself from the very tendencies of thought he criticized.

Anthony O'Hear's "Hayek and Popper: the road to serfdom and the open society" compares and contrasts Hayek's arguments in *The Road to Serfdom* with those of one of the other great diagnosticians of totalitarianism in the twentieth century, Hayek's friend Karl Popper. Along the way, O'Hear considers some difficulties with each author's position, but also suggests that, despite the collapse of the systems they criticized, what is of lasting value in their arguments has yet to be fully appreciated.

In "Hayek's politics," Jeremy Shearmur explores the ways in which Hayek's emphasis on the limitations of our knowledge and

the moral dangers inherent in central planning influenced his distinctive conceptions of liberty, the rule of law, and the impossibility of realizing an ideal of “social justice” in a market-based society. Shearmur regards the lines of argument Hayek deployed in *The Road to Serfdom* as key to his overall political thought, and traces their development in Hayek’s mind in the years leading up to the book’s publication. He also considers the tensions in Hayek’s thought entailed by his advocacy of a limited degree of “social engineering” in order to bring existing political institutions more into line with his own favored principles.

Aeon J. Skoble’s “Hayek the philosopher of law” examines the way in which Hayek’s conception of the limitations of knowledge and the dangers of centralized direction led him to a distinctive philosophy of law, one which saw in the English common law a paradigm of a rational legal order and led him to make a crucial distinction between law and legislation. Along the way, Skoble considers several objections that critics have made to Hayek’s account and how they might be answered.

Hayek stood in the broad liberal tradition, but on the “classical” rather than the modern and egalitarian side of it. Chandran Kukathas’s “Hayek and liberalism” examines Hayek’s relationship to this latter, rival brand of liberalism, and suggests that his theoretical differences with it originate from the overriding practical concern he had in countering the dangerous nationalist and totalitarian tendencies that characterized world politics in the twentieth century. This concern led Hayek to be less interested in abstract philosophical foundations than most contemporary liberals are, and more attentive to the concrete features of liberal institutions. It also led him to endorse a thoroughgoing internationalism that would have made him far less exercised by communitarian criticism than some recent egalitarian liberal theorists are.

This internationalism is, in Roger Scruton’s view, precisely where Hayek differs most sharply from the conservative tradition in political thought – a tradition to which, as Scruton argues in “Hayek and conservatism,” Hayek was otherwise in many respects very close. Scruton also regards it as the greatest potential weakness in Hayek’s political philosophy. For citizens’ commitment to the liberal institutions Hayek favored arguably cannot be sustained over time without a greater sense of loyalty to the nation in which

those institutions are embedded than liberals are usually comfortable with.

In "Hayek on the evolution of society and mind," Gerald F. Gaus presents a systematic exposition of Hayek's account of the interconnected evolutionary processes he saw as molding both social institutions and the individual human mind, laying bare its many subtleties and complex theoretical structure. Gaus argues that the standard objections to Hayek's theory of cultural evolution rest on misinterpretations, and that many of his critics do not appreciate its richness and sophistication because they fail to interpret it in the context of his larger system of ideas.

Eric Mack's "Hayek on justice and the order of actions" provides an equally systematic account of Hayek's conception of just rules of individual conduct and their role in generating and maintaining the sort of unplanned but nevertheless rational large-scale pattern of human actions that Hayek regarded as essential to a free and pluralistic society. In Mack's view, Hayek's defense of his favored conception of justice is teleological without being utilitarian.

Finally, Edward Feser's "Hayek the cognitive scientist and philosopher of mind" examines the philosophical themes contained in Hayek's treatise in cognitive science, *The Sensory Order*. Feser situates Hayek's views firmly within the history of twentieth-century philosophy of mind, relating them to those of Hayek's contemporaries Schlick, Russell, Carnap, and Wittgenstein, and noting the respects in which they foreshadow the views of more recent thinkers. In Feser's estimation, Hayek's philosophy of mind constitutes an impressive synthesis that is superior in many ways to other and better-known naturalistic approaches. But, as he also recounts, Hayek's way of carrying out a naturalistic analysis of the mind opened him up to a possibly fatal set of objections presented by his friend Karl Popper. Yet the upshot of Popper's criticisms if anything only reinforces the critique of scientism that was so central a theme of Hayek's work.

NOTES

1. See Ebenstein 2001 for discussion of Hayek's influence, especially ch. 17 (which deals with his post-*Road to Serfdom* celebrity, including the Churchill episode), ch. 26 (which discusses his general influence on

- the New Right), and ch. 37 (which describes his relationship with Thatcher, including the incident mentioned above).
2. As opposed to the modern or egalitarian liberal tradition, which is less enamored of the market economy and limited government than were the classical liberals, and whose greatest twentieth-century representative is John Rawls. See Chandran Kukathas's essay in this volume for discussion of the relative lack of interest in Hayek among modern egalitarian liberal theorists.
 3. Gamble 1996 and O'Neill 1998 are two important recent book-length studies of Hayek's work written from a left-of-center point of view. Meghnad Desai (1994, 1997), David Miller (1989a), and Raymond Plant (1994) are three other broadly left-of-center writers who have seriously engaged with Hayek's work. (Gamble and Desai are also represented in this volume.) The currently more-or-less left-wing (or at least anti-right-wing) John Gray has written much on Hayek too, though he started out as a Hayekian. (Gray 1998 is an updated version of his important book-length study of Hayek originally published in 1984, and contains a post-script summarizing Gray's reasons for moving away from a Hayekian position.)
 4. Cf. Cassidy (2000), who, writing in the *New Yorker* – no bastion of conservatism – goes as far as to proclaim the twentieth century “the Hayek century” and laments that Hayek's legacy has been “appropriated by the far right.”
 5. Nozick cited Hayek's *Individualism and Economic Order*, along with Mises's *Socialism*, as the works which converted him away from socialism while he was in graduate school (Nozick 1986); and of course, Hayek's influence on Nozick's *Anarchy, State, and Utopia* (1974) is obvious, even if there were also other influences. See Feser 2004 for discussion of the relationship between Nozick's views and those of Hayek.
 6. See Nozick 1974, pp. 18–22.
 7. See the Postscript to Hayek 1960 (“Why I Am Not a Conservative”) for the rejection of the “conservative” label, and p. 408 for the rejection of “libertarian.” To be sure, the context indicates that his dislike of the latter label was, as of 1960 anyway, mostly due to his finding it artificial sounding. But the conservative direction his thought took in the seventies and eighties indicates that his views cannot appropriately be characterized as “libertarian” in any case, at least given the connotations that term has come to have. As Gamble has noted, “the arguments by libertarians in the 1980s for scrapping state controls over immigration, drugs, and sexual behaviour find no echo or support in Hayek's writings. He did not favour setting the individual free in the sphere of personal morality” (1996, p. 108).

8. These tendencies are particularly evident in Hayek 1979 (in particular the epilogue on "The Three Sources of Human Values"); 1984d; 1987a; 1987b; and 1988. See Feser 2003 and Roger Scruton's article in this volume for detailed discussion of Hayek's relationship to conservatism.
9. See Hayek 1994, p. 141.
10. That is not to say that Hayek was exactly a traditionalist in his personal life. As is well known, he left his first wife and children in 1949 so that he could marry someone else. Even so, when asked years later whether in his personal life he had always abided by the moral standards he regarded as valid, Hayek acknowledged that "I'm sure that [divorcing his first wife] was wrong" and that "I know I've done wrong in enforcing divorce" (quoted in Ebenstein 2001, p. 169).

1 Hayek and the Austrian tradition

There are two elements of Hayek's background that justify our considering him an Austrian economist: first, that he was raised and went to university in Vienna in the first three decades of the twentieth century, and second, that when he finally decided on economics as his field of study, he was trained within the Austrian tradition in economics.

Hayek spent about a third of his life in Austria, mostly in his early days. When he was thirty-two he moved to England, where he would live for nearly twenty years. (He would later say that it was the place he felt most at home, both intellectually and emotionally.) From 1950 through 1962 he lived in the United States, and then moved to Freiburg, Germany, where (aside from a five-year period in Salzburg, Austria – an altogether depressing time for him, both emotionally and intellectually) he would spend the rest of his life. So the first place to look for Hayek as a distinctly Austrian figure is at the formative early period. Accordingly, I will discuss his family background, his early schooling, and his university days in Vienna. Within economics, of course, the adjective "Austrian" also signifies a specific school of thought. Once he had decided that he would become an economist, Hayek received training that would make him very much a product of that school. So a second part of the story is to examine what being trained as an Austrian economist might mean.

The chapter is divided into four sections. First I will examine Hayek's family life and school experience prior to the war. The second section looks at Hayek's university experiences. In the third we will see what it meant for Hayek to be trained within the Austrian tradition in economics. The Austrian School was a

tradition born in opposition, so that being a member of the school was defined as much by what one disavowed as by what one embraced. In the final section I will examine the relationship of the Austrian School to three sets of antagonists: the German Historical School economists, the Austro-Marxists, and the Vienna Circle positivists. Interaction with these groups affected the development of the Austrian tradition, and this affected the way that Hayek saw the world.

EARLY SCHOOLING AND FAMILY LIFE

Hayek was born in Vienna on May 8, 1899 into comfortable circumstances. His family was nominally Catholic, but non-practicing. Hayek suspected that his grandfather "like so many of the scientists of his generation" was "fiercely anti-religious," but his parents were simply non-religious: as a child they never took him to church, and when he expressed interest in a child's Bible he had received from them, "it disappeared mysteriously when I got too interested in it" (Hayek 1994, p. 40). By age fifteen he was a confirmed agnostic, a position he would maintain from then on.

Hayek attended both elementary school and high school (or *Gymnasium*, which consisted of eight grades, or forms) in Vienna. Among the options one faced in choosing a high school were those that emphasized a humanistic curriculum (these required both Greek and Latin) and those that were more scientifically oriented (Latin, but no Greek, was offered). Hayek's father August had received a thoroughly humanistic training, but he was also a natural science enthusiast, so he initially chose a more scientifically oriented *Gymnasium* for his son. Unfortunately, the school had a required class in drawing, and drawing turned out to be an area in which Hayek had no aptitude. His repeated failures ultimately forced him to find another *Gymnasium*. His new school, more humanistic in orientation, was in the suburbs and attracted a lower quality of student. Hayek was dubbed "Lex" (short for lexicon) by his classmates for his wide-ranging knowledge on nearly any subject (except, perhaps, the one then being taught). By his own admission he was an exceedingly lazy student, neglecting homework and cramming for special examinations offered to poorly performing students at the end of the year in order to be passed into the next form. One year he

failed three subjects and was not permitted to take the end-of-year exam, but was required to repeat the grade. Hayek ultimately attended three different schools before receiving his diploma, but due to the war he was able once again to take a special exam that allowed him to graduate early. This permitted him to volunteer for the army rather than to wait to be drafted. It also gave him confidence that he could “study up” for an area in a short period of time.¹

If Hayek’s poor performance in high school seems difficult to understand, we should recall Malachi Hacohen’s description of the typical Austrian Gymnasium of the day as consisting of “strict discipline, tedious memorization, and infinite boredom” (Hacohen 2000, p. 110). It was a system clearly capable of provoking resistance from intelligent students – and indeed, both Stefan Zweig and Karl Popper had similar reactions (Zweig 1943, pp. 24–28; Hacohen 2000, pp. 72–78). When he took an interest in a subject, though, Hayek could pursue it diligently. Biology and its cognate areas were among these, and this seems principally due to his family’s influence.

Hayek came from a family of natural scientists, at least on his father’s side. His grandfather taught biology and natural history at a Gymnasium. His father was a medical doctor, but devoted all of his spare time to botany, and had hopes of attaining a chair in botany at the university. (This never materialized, though he did obtain an unsalaried *Dozent* position.) August had his own circle, that is, he organized regular meetings of botanists in his own house (Hayek met Erwin Schrödinger as a boy when the latter accompanied his father to one of these meetings), and he also would take his son to lectures at the Zoological and Botanical Society. Hayek would later recall that, “I knew all the biologists in Vienna.”²

August Hayek was most interested in plant taxonomy; he was what might today be called a plant geographer or ecologist, chronicling which species were indigenous to which habitats and regions. He also owned a large herbarium and ran a business on the side that organized the exchange of pressed plant specimens. From age thirteen to sixteen Hayek helped his father, collecting and photographing specimens, and eventually started his own herbarium. The family’s naturalistic expeditions would take place on weekends in the spring and were sufficiently frequent to cause further friction with school authorities, because they meant that Hayek would miss

the semi-compulsory attendance at Sunday mass.³ Hayek's interests were serious; at one point he even began a monograph on a rare variety of orchid, attempting to decipher whether it was a new species. A bit later he developed interests in evolutionary theory and paleontology. In recounting this part of his early history, Hayek concluded that he could easily have imagined becoming a biologist rather than an economist (Hayek 1994, pp. 42–44). Within his family, his ultimate career choice made him an outlier: both of his siblings, and both of his children, went into the natural sciences.

If his father's side of the family influenced him in a scientific direction, his mother's side provided his entrée into the rest of Viennese academic society. His maternal grandfather, Franz von Juraschek, a professor of constitutional law at the university as well as a top-ranking civil servant, was quite wealthy. The family home was "a magnificent, even grandiose, top floor flat of ten rooms" opposite the opera house on the Ringstrasse, and here von Juraschek hosted balls that were attended by the sons and daughters of professors at the university (Hayek 1994, p. 39). Through the Juraschek household Hayek met many people he would encounter again, either at the university or later in his career. He even met Eugen von Böhm-Bawerk there, but he knew him as the climbing companion of his grandfather rather than as a famous economist (Hayek 1994, p. 57).

UNIVERSITY DAYS

Hayek enrolled in the University of Vienna in 1918. He completed his first degree in law in 1921, and another in political economy in 1923. Compared to his earlier educational experience, he thrived at university. The school was flooded with returning veterans, most of whom wanted simply to get their degrees and get out as soon as possible. Hayek was among a small group of students who took his education more seriously. He sought out the best professors, regardless of field, spending his "day at the university from morning to evening . . . shifting from subject to subject, readily hearing lectures about art history or ancient Greek plays or something else" (Hayek 1994, p. 51). Perhaps predictably, Hayek was least enthusiastic about his chosen field of study: he ended up hiring a tutor to coach him as he crammed for his exams on Austrian law.⁴ His real interests were in psychology and, later, economics.

In the harsh winter of 1919–20 there were fuel shortages that closed the university, and Hayek was sent by his family to Zurich. While there he attended lectures on canon law and on the philosophy of Moritz Schlick (the latter offered not by Schlick but by a Swiss academic). Schlick, the founder of the Vienna Circle of logical positivism, later would become a professor at Vienna, and Hayek would take a class from him. While in Switzerland Hayek also worked briefly in the laboratory of the brain anatomist Constantin von Monakow, dissecting fiber bundles in the brain. It was apparently in Zurich that Hayek wrote most of the essay that would serve as the basis for his 1952 book on the foundations of psychology, *The Sensory Order*.⁵

The Viennese intellectual scene extended far beyond the university, in part because formal professorships (as opposed to the unsalaried *Dozent* positions) were so hard to come by. Study circles formed both within and outside the university, an amalgam of former students, faculty, interested outsiders, and sometimes the best of the undergraduates. While still at university Hayek with his boyhood friend Herbert Fürth formed their own circle, the *Geistkreis*, in which (rather typically) the subjects presented ranged from literature and philosophy to art history and economics. From 1924 until 1931, when he accepted a position at the London School of Economics, Hayek was also a regular member in a circle which formed around Ludwig von Mises. (In late 1921 Hayek took a job in the Office of Accounts, a temporary government office set up to settle various international debt claims, where he met Mises.) In a city in which anti-Semitism was on the increase, it is worth mentioning that Hayek participated in mixed groups, ones that included both gentiles and Jews.

Hayek was at university in the immediate postwar period, an economically desperate and politically tumultuous time. The streets were filled with returning veterans, many of them unemployed, and because embargoes continued even after the war ended, near famine conditions prevailed in Vienna during the first postwar winter. The political situation was extremely volatile, not just in Vienna but across central Europe. In spring 1919 soviet republics were briefly established in both Hungary and Bavaria. Communist agitation in Vienna led to a demonstration on April 17, 1919 in front of the Parliament building that ended in bloodshed, as did an attempted

communist coup two months later.⁶ Though the various communist revolutions in central Europe all ultimately failed, in the municipal elections of May 1919 the socialists won an absolute majority in Vienna, and undertook the extensive set of social welfare reforms that led to its being called “Red Vienna.” Though never as severe as it was in Germany, Austria also experienced hyperinflation in 1921–22, with monthly increases as high as 134 percent.

As a university student Hayek was basically a Fabian socialist.⁷ With some friends he briefly toyed with the idea of developing a political party whose platform would lie between the Catholic parties on the one side, and the social democrats and communists on the other. Early on he developed a deep aversion to the communists, however, in part because he witnessed the violence of the first post-war year, but also because the Austrian version of Marxism was so unyielding, at least on paper.⁸ Ludwig von Mises’ 1922 book on socialism, which appeared soon after Hayek began working with Mises at the Office of Accounts, would begin the gradual process of weaning him from his early socialist sympathies.⁹

We will discuss the influence of various Austrian economists on Hayek’s thought in the next section, but here we must also mention the physicist, psychologist, and philosopher Ernst Mach. Mach had died during the war, but his radically empiricist ideas permeated the postwar Viennese intellectual scene. His view that scientific theories are only fictions, useful for organizing complexes of sensations but ultimately to be eliminated as science progresses, directly influenced the views of the logical positivists of the Vienna Circle. Mach’s influence was also evident in economist Joseph Schumpeter’s 1908 view that sciences do not seek causes but only report on functional relations. Schumpeter used this idea to argue (provocatively, for an economist trained in the Austrian tradition) that the Walrasian general equilibrium approach, which emphasized functional relationships, was the theoretical framework within economics that best exemplified a truly scientific approach. Finally, though Lenin had criticized “empirio-criticism” during the war, the political left in Vienna embraced Machian analysis: the Austro-Marxist variant of “scientific socialism” provided socialist political and economic thought with positivist underpinnings (Caldwell 2004a, pp. 105–6, 136–37).

Mach was important for Hayek, too, in more specific ways. In his student paper on psychology Hayek had argued against the Machian

thesis that there is a one-to-one correspondence between an external stimulus and a sensation, positing instead that, when something becomes a part of our consciousness, it assumes a position in relation to our other past impressions. Hayek believed that his own analysis of relations made Mach's recourse to the theoretical construct of "sensations pure and simple" expendable. In making this argument, Hayek was in a sense using Mach's own position within the philosophy of science against his analysis of sensations, an argumentative strategy that Hayek would repeat in certain of his criticisms of both socialism and behaviorism (Caldwell 2004b, pp. 1–5). In addition, in *The Analysis of Sensations* Mach had argued that our commonsense experience of the world (part of what Hayek would call "the sensory order") was a natural product of evolution, a view fully compatible with themes to be found in the mature Hayek's work.

What emerges from these various observations about the economist as a boy and young man? Hayek clearly was an independent and precocious youth, one who could quickly master the basics of a field when he took an interest in it. He was raised in a secular household and had a cosmopolitan outlook, apparently mixing easily with other groups in a society that was growing increasingly anti-Semitic. Perhaps most important, he came from an intellectual household, one that worshiped at the altar of science, and this was reinforced when he went to university – he came of age in a milieu in which the fascination with science was omnipresent. There were reasons for this. The scientific worldview (and with it such economic and political doctrines as liberalism and socialism) challenged both the older tradition-bound Catholic outlook and the doctrines being espoused by various fascist groups (who despised liberalism, socialism, and democracy in equal measure) then emerging across central and southern Europe. The scientific worldview was a bulwark against much that seemed archaic, xenophobic, and irrational, and was a natural draw for the young Hayek.

But it was also contested ground. The mantle of science was being claimed by many contending forces. Who were the real scientists, and how could one demarcate their activities from those of the pseudo-scientists? This question would professionally engage the philosophers of the Vienna Circle and men like Karl Popper, but it was one that touched all who sought to do scientific work.

THE AUSTRIAN TRADITION IN ECONOMICS

When Hayek first enrolled at the University of Vienna, many of the names that we associate with the Austrian School of economics were not on the scene. Though still alive (Hayek saw him once, marching in an academic procession), Carl Menger had been retired since 1903. Eugen von Böhm-Bawerk had died during the war, and Friedrich von Wieser was serving as the Minister of Commerce. The teaching of economics was in the hands of Carl Grünberg, a socialist economic historian, and Othmar Spann. Hayek had little good to say about either; apparently the best thing Spann did for him was to put a copy of Menger's *Principles of Economics* in his hands (Hayek 1994, p. 54).

Hayek briefly was a student of Spann's, but when Wieser returned to the university from his government post Hayek soon settled on him as his major professor. He wrote his dissertation on the theory of imputation, the Austrian approach to marginal productivity theory and a favorite topic for Wieser. Though Hayek greatly admired him as a teacher,¹⁰ Wieser's exact influence on his thought is a bit harder to decipher. Certain affinities are evident. Wieser had argued in his book *Natural Value* that, no matter what the form that social organizations take, the same questions of "management and value" must arise, an argument that is a clear antecedent to Mises' and Hayek's later contributions to the socialist calculation debate. In his theoretical work Wieser followed a methodology of "decreasing levels of abstraction," and Hayek made use of the same method in his own *Pure Theory of Capital* (1941). Perhaps Wieser's treatment of the evolution of social institutions in his 1927 book *Social Economics* also had an impact, for this was an area that Hayek would turn to in later years (Caldwell 2004a, pp. 141–43).

Though Wieser was Hayek's major professor, Ludwig von Mises quickly became his mentor. Mises assisted Hayek in going to America for fifteen months in 1923–24, then helped set him up in a job as the director of an Austrian business cycle institute when the job at the government office was done. As noted earlier, Mises also helped wean him from his youthful dalliance with socialism, a subject to which Hayek would return in the 1930s when he initiated the English language version of the socialist calculation debate.

Mises had made his reputation as a monetary theorist, and this was another area that Hayek chose to investigate. It was perhaps an

easy choice: hyperinflation in central Europe, debates over the return to the gold standard and the impact of reparations payments, the emergence of new monetary institutions (the Federal Reserve System in the United States was barely a decade old) and of research and data collection organizations like the newly formed National Bureau for Economic Research and the Harvard Economic Service in the USA, and the London and Cambridge Economic Services in England (similar organizations soon sprang up throughout Europe, as well), all meant that monetary economics was both a hot and an unsettled area, the perfect combination for an ambitious young scholar.

On his trip to the United States Hayek was disappointed to find that theory had not advanced very far beyond what he had already learned as a student. He chose instead to focus on issues of monetary policy as they related to control of inflation and the business cycle. One of the products of his time abroad was a major paper reporting on US monetary policy in the early 1920s, and in it Hayek made reference to the Austrian approach to business cycle theory. In his introduction to a volume of translations of his early papers, Hayek recounted what came next:

[A]nother member of our group with whom I was in daily contact, Gottfried Haberler, persuaded me after reading my first draft that no sufficient exposition of the theory I had used was to be found in Mises' published work, and that if I was to expect to be understood, I must give a fuller account of the theory underlying my report of the events described. Thus arose the long footnote . . . containing the first statement of my version of Mises' theory. (Hayek 1984b, pp. 2–3)

Hayek would elaborate his own variant of the Austrian theory of the cycle in his first two books, *Prices and Production* (1931) and *Monetary Theory and the Trade Cycle* (1933). A byproduct of these studies (and also of his trip abroad) was a critique of the theories of two Americans, William Trufant Foster and Waddill Catchings, in a paper published in German that was later translated as "The 'Paradox' of Savings." Lionel Robbins, a young economist at the London School of Economics (LSE), read the paper in German and invited Hayek to give some lectures at the LSE in the spring of 1931. This ultimately led to Hayek's appointment the next year to the Tooke Chair of Economic Science and Statistics there. Hayek's

paper providing an Austrian response to the theories of the Americans Foster and Catchings ultimately was responsible for moving him from a *Dozent* position in Austria to a named chair at a major English university. He would remain at the LSE until 1950, when he moved to the Committee on Social Thought at the University of Chicago.

It would be misleading to suggest, however, that Hayek's ideas were exclusively Austrian in origin. For example, his initial statement of the theory of the trade cycle drew on Mises' writings, but also on those of the brilliant Swedish economist, Knut Wicksell. Wicksell published his work in German, and was well known for his 1893 book *Value, Capital, and Rent*, in which he developed the marginal productivity theory of distribution and for his synthetic integration of Walrasian general equilibrium theory with Böhm-Bawerk's capital theory. Five years later he published a book on monetary economics, *Interest and Prices* (Wicksell [1936] 1965), in which he developed the natural rate–market rate of interest dichotomy. Wicksell articulated a more complete version of these theories in lectures that were published in Swedish in 1901 and 1906, and then translated into German in 1922.¹¹ Hayek had gained considerable institutional knowledge, as well as familiarity with some basic statistical techniques, on his trip to the USA, and was then trying his hand at further integrating monetary theory with an explanation of the business cycle by combining elements of Wicksell's diverse contributions with those of von Mises. His work was integrative and on the cutting edge.

But it also had competitors. Some of these were in Germany, and indeed, I think that one way to read *Monetary Theory and the Trade Cycle* is as an argument directed at German economists, and especially the Kiel School that was forming around Adolf Löwe. Hayek argued that, with the introduction of the "loose joint" of money, a theory of the cycle that was also fully consistent with Walrasian static equilibrium theoretical foundations, was not an oxymoron, as Löwe's work might suggest, but fully viable (Caldwell 2004a, pp. 156–62).

More important in retrospect, however, was the role the book played in leading to Hayek's famous encounter with John Maynard Keynes.¹² In his 1930 book, *A Treatise on Money* (Keynes 1971b), Keynes had also drawn on Wicksell's natural rate–market rate

dichotomy, but had left out any reference to Wicksell's earlier work on capital theory. By way of contrast, the effect of divergences between the market and natural rates of interest on the capital stock was a key element of Hayek's story. Hayek offered up his criticisms in a two-part review of Keynes' book, and in his reply Keynes attacked Hayek's own *Prices and Production*, which had just appeared.

The battle with Keynes marked Hayek's entrance into the British academic scene. Of course, Keynes soon swept the field with the publication in 1936 of his *General Theory*. As for Hayek, criticisms from a variety of quarters made him rethink the capital-theoretic foundations of his own model, and in particular his use of Böhm-Bawerk's device of an "average period of production" in explicating how changes in interest rates affect the structure of production. He would work on this project on and off throughout the rest of the 1930s, a project that generated many papers and which ultimately culminated with the publication in 1941 of *The Pure Theory of Capital*. Though he finished the book, the project nearly exhausted him, and he never really achieved what he hoped to do, the construction of a dynamic model of a capital-using monetary economy. Like his earlier work, it drew heavily on the Austrian tradition in economics, but it also integrated the writings of economists working in the traditions of Sweden, Lausanne, America, and Britain. By this point in time, the cosmopolitan nature of Hayek's oeuvre was evident.

In the 1930s Hayek also began developing his insights about how a market system with freely adjusting prices coordinates economic activity in a world of dispersed knowledge. These insights led him to question the ability of the static equilibrium analysis of his day, with its assumptions of full information and perfect foresight, to shed light on the workings of a market economy. The origins of these ideas are hard to disentangle, though Hayek's participation in the socialist calculation debate and in discussions with Swedish economists and others about expectations, as well as the challenging claim of Hayek's old classmate Oskar Morgenstern that perfect foresight was logically incompatible with the notion of Walrasian *tâtonnement* (movements towards equilibrium), all deserve mention (Caldwell 2004a, pp. 209–20). In any event, these insights slowly but surely led Hayek to investigate how a host of social institutions in addition to markets assist in the coordination of knowledge, and

ultimately to questions about the origins of such institutions. In this later work Hayek was in a sense returning to themes that had initially engaged the founder of the Austrian tradition, Carl Menger. Interestingly, even though Hayek had edited a collection of Menger's writings in the early 1930s and wrote a biographical essay on him, when mentioning predecessors he most often made reference to Scottish Enlightenment philosophers like David Hume, Josiah Tucker, Adam Ferguson, and Adam Smith, rather than Menger (e.g. Hayek [1946] 1948). One suspects that this was because by this time his audience was English-speaking (neither of Menger's books had been translated yet), and because he began these investigations during the Second World War, when reference to German-speaking social scientists, even liberals, might have been viewed as somewhat impolitic.

BATTLES WITH OTHER TRADITIONS

The Austrian tradition was born in opposition; the very use of the term "Austrian" to identify a school of economic thought was begun by its opponents, members of the German Historical School of economics. German Historical School economists rejected a theoretical approach to their subject. Noting that each country has its own distinct and unique history, with different social norms, institutions, and cultural values affecting its course of development, they concluded that the abstract theorizing of classical economists like David Ricardo was simply a mistaken generalization from the narrow experience of one nation at one point in time, Great Britain since the late eighteenth century. They favored instead the detailed study of the development of each nation's economic, social, cultural, and ethical institutions. Some had stage theories of development, others urged the patient collection of facts, but all derided the classical's desire to articulate a universal theory of economics.

Carl Menger, whose *Principles of Economics* ([1950] 1976) was the founding document of the Austrian School, agreed with the German Historical School economists that the specific theory of value endorsed by Ricardo and the British classicals – most followed some variant of a cost of production theory – was wrong. But he disagreed that this implied that there could be no *theoretical* approach to economic phenomena. In the *Principles* he claimed

that a number of economic practices and institutions – these included the origins of money and exchange, the formation of prices, and the development of various market structures – could be explained as the unintended consequences of intentional human action. People in pursuing their own interests do not set out to create such institutions; rather, they emerge as unintended, and in that sense spontaneous, orders. In explaining why exchange occurs, Menger introduced the marginal principle, which would become the foundation for modern microeconomic theory.¹³

Though Menger dedicated his book to Wilhelm Roscher, a leading figure among the older German Historical School economists, it was interpreted by the leader of the younger generation, Gustav Schmoller, as simply a continuation of the errors of Ricardo and other classicals. Disputes between the two schools led eventually to the *Methodenstreit*, or battle over methods – and it was in this battle that the term “Austrian School of economics,” originally meant as a term of derision, was coined.

By the time Hayek had come on to the scene, the battle between the Austrian and German Historical Schools was pretty much over. What remained were certain presuppositions that Hayek brought to his studies. Perhaps the most important of these was the Austrian insistence that the proper way to study economics was theoretical.

One can see this view, for example, in the first chapter of *Monetary Theory and the Trade Cycle*, where Hayek both defends a theoretical approach to his subject and offers a scathing attack on “empirical studies” in economics. One of the targets was “the oft-repeated argument that statistical examination of the Trade Cycle should be undertaken without any theoretical prejudice,” a view which he claims “is always based on self-deception” (Hayek [1933] 1966, p. 38). For the Austrians, a fundamental conclusion of their debates with the German Historical School economists was that there is no such thing as the presuppositionless observation of reality or collection of data – empirical work always must take place within an existing, even if implicit, theoretical framework.

Though Hayek cited the work of the Harvard Economic Service as an example of the error, his argument was equally directed at the approach advocated by the American economist Wesley Clair Mitchell. Hayek had encountered Mitchell on his trip to America, and even sat in on his history of economic thought class. Though

Mitchell was critical of the German Historical School, he shared their belief that the marginalist approach was simply a continuation of the mistakes of the classicals, especially in their use of the "rational economic man" construct. Mitchell envisioned a future for economics in which the "scientific psychology" of behaviorism would replace subjective value theory, and in which economists would join with natural scientists to use objective statistical data to organize and run society along more rational lines. In his attacks on marginalist theory and emphasis on the use of statistics Mitchell would have reminded Hayek of the German Historical School economists. But in his vision of a future in which science would be used to reconstruct society he would also have reminded Hayek of the positivists, more on whom in a moment.

Another result of the *Methodenstreit* was that the so-called "second generation" of Austrian economists, Böhm-Bawerk and Wieser, increasingly emphasized the marginalist part of the Austrian contribution as opposed to the "social institutions as the unintended consequences of intentional human action" part which had been so important to Menger, and in his later work, to Hayek. They did this to make clear the differences between their own theory and the cost of production theories of value of the classicals. A prominent defender of one variant of the classical theory was Karl Marx, whose utilization of a labor theory of value was central to his explanation of the origin of surplus value, itself a key part of his theory of the exploitation of the proletariat. Marxist value theory then became a natural target for the Austrians. And indeed, after Böhm-Bawerk's devastating 1896 critique of the third and final volume of *Das Kapital*, the Austrian economists were evermore identified as the most prominent critics of Marxism (see Böhm-Bawerk [1896] 1975).

While the criticisms of Marxist value theory by Böhm-Bawerk and others caused some socialists to abandon the labor theory of value (thus provoking the first schism in Marxism), others rose to its defense. Among the most vocal defenders were the Austro-Marxists, and this led to a famous encounter. After years of government service Böhm-Bawerk returned to teaching in 1904, and for the next decade he ran an economics seminar at the university. The first seminar was on the theory of value, and featured an extended debate between Böhm-Bawerk and Otto Bauer, the brilliant young leader of the Austro-Marxists, one who would go on to lead the Austrian

Social Democrats after the war. Other seminar participants included the Marxist theoretician Rudolf Hilferding, who had himself published (see Hilferding 1975) a criticism of Böhm-Bawerk's position on Marx, as well as Joseph Schumpeter and Ludwig von Mises. After these debates on the transformation problem and the Marxian theory of value, the Austrian economists were thoroughly schooled in the nuances of Marxist theory, and indeed defined their own approach at least partly in contradistinction to it.

But the Austrian critique of socialism was ultimately to go far beyond the criticism of its value theory. This was due in part to another seminar participant, Otto Neurath. In the seminar Neurath propounded the doctrine of "war economy," the idea that the massive central planning that typically characterizes an economy in war should be extended into peacetime. Neurath further proposed that money should be abolished, and that the managers charged with directing the economy should rely instead on an extensive body of social statistics that could be used to plan production and distribution, a plan that would particularly irritate a monetary theorist like Ludwig von Mises. By the end of the war many others had joined Neurath in proposing socialization schemes for the reorganization of society, though few were as radical as his. These proposals ultimately provoked von Mises to write an article and later a book on socialism, thereby beginning the German language socialist calculation debate.

Neurath's writings also strengthened the link in the Austrian mind between socialism and positivism, for in the 1920s he was to become the "social science expert" for the Vienna Circle. As recent scholarship emphasizes, the early days of the logical positivist movement had a distinctly political side, and Neurath played a central role in this. In advocating the unity of science, for example, he hoped to enlist all of the sciences to use them to refashion society along socialist lines (Reisch 2005). In any event, for the Austrian School economists, positivist philosophy of science was always aligned in their minds with socialist politics and economics.¹⁴

How did the conflation of socialism and positivism affect Hayek? Though he had taken a class from Schlick and had participated in political events as a student, Hayek's real exposure to the relevant debates doubtless occurred after he began participating in the Mises Circle. One of his friends from the *Geistkreis*, Felix Kaufmann, was a

member of both the Mises Circle and the Vienna Circle, and he kept the former apprised of the latter's activities. In the late 1920s Mises was fashioning his own response to the positivists with his theory of human action, so positivism was a much discussed topic in the seminar. Though Hayek appears never to have been comfortable with the *a priori* foundations that Mises claimed for his program, he imbibed and fully concurred with the view that the positivists were only pretenders to the mantle of science. And because their radically empiricist approach to science had much in common with the naive empiricism of the German Historical School economists, arguments against them came naturally to the lips of anyone trained in the Austrian economic tradition.

One can see the effects of all this in Hayek's work beginning in the 1930s. In the middle of the decade he embarked on his own battle against socialism. His first move was simply to inform his British readers of the German language debates that had already taken place. And his subsequent moves also make sense given his background, for very soon his arguments branched off from the purely economic to a more broad-based attack that focused on the methodological and philosophical underpinnings of socialist thought.

In his Second World War era essay "Scientism and the Study of Society," Hayek grouped together under the common and pejorative label "scientism" a number of doctrines, and did so according to common elements they shared: historicism, objectivism, collectivism, and the planning mentality (Hayek [1942–44] 1952). The advocates of these approaches hoped to use objective, empirically oriented science and the careful collection of historical data and statistics to plan and carry out the efficient production of goods that would then be distributed along more equitable, often socialistic, lines. From Hayek's perspective, positivists, socialists, German Historical School economists, and American institutionalists all shared a similar agenda. For someone raised in the Austrian tradition, he could not see it otherwise.

Hayek and the Austrians were not just critics; they offered an alternative approach to the study of social phenomena, and again, the contrast is well drawn in the "Scientism" essay. In contrast to the objectivism of Neurath's physicalism, say, or Mitchell's behaviorism, there is in the Austrians a stress on subjectivism: people act on the basis of their subjective perceptions of reality, according to their

own subjective tastes, preferences, and knowledge. In place of collectivism, the Austrians offered an analysis that begins with the choices of purposeful individual agents, of “acting man.” Instead of an historical approach, the Austrians proposed the theoretical study of social phenomena. And in place of the planning mentality, the Austrians defended the idea that many social phenomena are examples of spontaneous orders, the unintended consequences of purposeful human action.

Hayek’s commitment to such Austrian themes as subjectivism and methodological individualism is clear in his work from the mid-1940s, not just in the “Scientism” essay but also in such pieces as “The Facts of the Social Sciences” (Hayek [1943] 1948) and “Individualism: True and False” (Hayek [1946] 1948).¹⁵ His commitment to examining and explicating the formation of complex self-organizing orders only grew through time, and influenced his work in psychology, the law, and the philosophy of science. Finally, Hayek’s commitment to theory also never wavered: no matter what the subject matter, his analyses were inevitably framed at the highest, most abstract level.

Having been raised in the Austrian tradition explains finally why Hayek fell in so easily with Karl Popper when he read his work. This is something that needs some explaining because, though both were Viennese, they did not know each other in Vienna, and Popper’s politics were considerably to the left of Hayek’s. If one looks, however, at the opening chapters of *The Logic of Scientific Discovery* ([1959] 1968), Popper’s attack there on inductivism (the idea that via the careful collection of facts one can construct a scientific theory) would have been completely in line with the Austrian view vis-à-vis the German Historical School economists and the positivists.

In his LSE inaugural lecture ([1933] 1991) Hayek had attributed many of the mistaken beliefs of the day to the lingering influence of the German Historical School economists – in short, their attacks on economic theory had undermined its authority, opening the door to the many quack economic policy prescriptions then on offer. About a year later Hayek was talking to Gottfried Haberler about the ill effects of positivism, and Haberler told him he should read the work of Popper. Hayek obliged, and this resulted in Popper being invited to speak at his seminar at the LSE, where Popper presented an early version of *The Poverty of Historicism*. Hayek later was to

recount that when he heard Popper's views about falsification (that is, the idea that for a theory to be scientific there must be some state of the world that can falsify it), he "just embraced his views as a statement of what I was feeling" (Hayek and Weimer 1982, p. 323). I believe that this is equally true for Popper's attacks on inductivism.

A characteristic that Hayek shared with most of his antagonists, at least those identified here, was that he was a full participant in the modernist scientific project. Hayek saw himself as a scientist, and believed in the power of scientific argument. When he attacked socialism, he didn't do so on moral or ethical grounds. Rather, he argued that socialist planning could not accomplish the ends it set out for itself.¹⁶ When he criticized behaviorism in *The Sensory Order* (1952b), his argument was again that it failed to meet its own strictures about science. Behaviorism insists on making recourse only to observable phenomena in order to remain "objective" and to avoid acts of interpretation. But if Hayek's theory is true, all sensory data are themselves products of the mind – they are themselves acts of interpretation. (Incidentally, this argument further reinforces the idea that there is no such thing as brute, uninterpreted facts, a position taken by the Austrians against the German Historical School economists.)

Hayek remained to the end a believer in science; he just thought that many other believers (especially those so ready to label their opponent's beliefs as "metaphysics") were not practicing what they preached. Hayek was a modernist through and through, but one who recognized the importance of interpretation. As a subjective value theorist raised within the Austrian tradition, he was in this sense a fully representative member.

I will close with a final, and very speculative, hypothesis. I have dealt only peripherally with one of the key elements of Hayek's thought, his emphasis on the severe limitations of our knowledge, which implies that there is often very little we can do to shape social phenomena to fit our own designs. One sees this idea running throughout his work. In the Preface to *Monetary Theory and the Trade Cycle*, he says: "[T]he one thing of which we must be painfully aware at the present time – a fact which no writer on these problems should fail to impress upon his readers – is how little we really know of the forces which we are trying to influence by deliberate

management; so little indeed that it must remain an open question whether we would try if we knew more" (Hayek [1933] 1966, p. 23). It is there in his essays on knowledge, when he labels the fact of social coordination in a world of dispersed knowledge a "marvel" (e.g. Hayek [1945] 1948, p. 87). One sees it in his claim that often the best we can do in the social sciences, especially when dealing with complex phenomena, is to make pattern predictions or to explain the principle by which the phenomena operate (e.g. [1942–44] 1952, pp. 70–76; [1964] 1967). It is there most evidently in the sorts of statements he was making in interviews toward the end of his life, such as that "what we can know in economics is so much less than people aspire to."¹⁷

Some may wish to argue that Hayek was simply born with a sort of natural pessimism or cynicism, and that this generated his long-standing belief in the inherent limitations that humans face when they try to intervene in social phenomena. Perhaps. But it is also possible that this view was the product of his having come of age during the final collapse of an already broken-down empire, of having experienced the multiple forms of disaster that surrounded postwar Vienna and enveloped interwar central Europe, and of having witnessed the failures of various high-minded social experiments to achieve anything like what their exponents had promised. In bearing witness to so much tragedy Hayek was again very much a part of the larger Austrian tradition. His famed "epistemic pessimism" may well have been another result of that larger experience.

NOTES

1. These details of Hayek's early school experiences come from an unpublished interview with W. W. Bartley III that took place in Freiburg on February 9, 1983, one of a number that Bartley undertook during the 1980s. I thank Stephen Kresge, who provided me with copies of the interviews, for permission to draw on them here and elsewhere in the chapter.
2. Undated 1983 interview with W. W. Bartley III; cf. also his interview of February 11, 1983. Here and in what follows, any words quoted directly from Hayek appear through the courtesy of the Hayek estate.
3. In an interview with W. W. Bartley III in Freiburg on February 11, 1983 Hayek said that "the Sunday excursions were very much intended by him [August – BC] partly for his own botany and partly to bring up his children [to be] interested in the natural sciences."

4. Interview with W. W. Bartley III, Freiburg, February 11, 1983.
5. Interview with W. W. Bartley III, London, March 28, 1983.
6. In an unpublished 1989 manuscript titled, "Music and politics: Karl Popper meets Arnold Schönberg and the Eislers and gives up communism," W. W. Bartley III noted that Hayek, returning home from university during the April demonstration, was briefly caught in the crossfire.
7. In an interview with W. W. Bartley III in Freiburg on February 10, 1983, Hayek stated that his close friend Herbert Fürth's father was a lawyer in Vienna who was active in various Fabian causes, and that this, together with his reading of the works of Walther Rathenau, were most responsible for his early sympathies for socialism.
8. Austro-Marxists were among the most doctrinaire, with little room for compromise with revisionists, but the actual strategy followed by Otto Bauer, who as leader of the social democrats in Red Vienna did not think that the historical conditions were right for a revolutionary transformation of society, was fairly conciliatory, leading some to blame him for the eventual fascist successes of the 1930s.
9. As Hayek put it in his Foreword to a new English language edition of Mises' book, "It gradually but fundamentally altered the outlook of many of the young idealists returning to their university studies after World War I. I know, for I was one of them" (Hayek 1981, p. xix).
10. See e.g. p. 14 of the 1983 document "Nobel Prize Winning Economist," edited by Armen Alchian, UCLA, Charles E. Young Research Library, Department of Special Collections, Oral History transcript no. 300/224, transcript of an interview with Hayek conducted in 1978 under the auspices of the Oral History Program, University Library, UCLA.
11. Not incidentally, given the importance of Wickseil's work for the controversy between Keynes and Hayek, both *Interest and Prices* and *Lectures on Political Economy* were translated into English in the 1930s. A translation of Wickseil's 1893 book *Value, Capital, and Rent* did not appear until 1954.
12. For more on this episode, see Hayek 1995.
13. For a more detailed discussion of the development of Menger's thought, see Caldwell 2004a, ch. 1.
14. See Caldwell 2004a, ch. 1 for a more detailed discussion of the Austrian economists' debates with Austro-Marxists and positivists.
15. As I argue in 2004a, pp. 279–87, his commitment to "methodological individualism" in later years depends mightily on how one defines the term, and as such is less clear.
16. By utilizing the Weberian means–ends framework, the argument remains value-free. Thus Mises and Hayek argued that the means (socialist planning) would not allow the chosen ends (rational production) to be

accomplished: without freely adjusting market prices, socialist managers would not have the knowledge of relative scarcities needed to make rational production decisions. Or, as Hayek argued in *The Road to Serfdom* ([1944] 1962), without common shared values, socialist planners would not be able to come up with a production plan that would gain everyone's approval.

17. See p. 258 of the interview cited in n. 10.