

HOW MISESIAN WAS THE HAYEKIAN RESEARCH PROGRAM?¹

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Hayek often said that his 1937 paper – “Economics and Knowledge” -- was a subtle rebuke of Mises’s apriorism. Not, as many might want to believe, in some root and branch fashion, but in the realm of applied theory of which the study of the market economy is to be included. The realm of pure theory – or what Hayek calls the “Pure Logic of Choice” or in other places he calls “The Economic Calculus” – the essential building block of economic analysis reflects the Misesian (or actually Mengerian) position, and more or less the epistemological status of the pure theory aspect of praxeology is upheld by Hayek. As he put it in a much later essay, there is a “Primacy of the Abstract.” And, one must always remember that Mises’s claim is not that he was unique in this endeavor either. As he put it:

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

I believe the most *scientifically productive reading* of Hayek’s 1937 paper is as a clarification of the Misesian project with respect to the study of the market economy – or what both Mises and Hayek

¹ This short paper draws liberally on my Liberty Matters contribution from my book *F. A. Hayek: Economics, Political Economy, and Social Philosophy* (London, UK: Macmillan, 2018).

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called “catallactics”. And, in catallactics the pure logic of choice is a necessary component, but not a sufficient one for a full explanation. We must, in our quest for a full explanation explore how alternative institutional arrangements impact the learning of individuals within that system. In this way we move from the pure logic of choice to the situational logic of organizations to the study of the exchange order, and with that productive specialization, peaceful social cooperation, and the entrepreneurial function as an agent of change. This is how I would read the passages in Hayek (1937, 34ff) where he argues that the pure logic of choice is not directly applicable to the explanation of social relations. Equilibrium for individual choosers, in other words, is quite different from equilibrium achieved by dispersed and diverse individuals. The first is a necessary part of the explanation, but to achieve the sort of dovetailing of plans that defines the equilibrium state in the social relations of the market we must be able to explore how “under certain conditions, the knowledge and intentions of the different members of society are supposed to come more and more into agreement, or, to put the same thing in less general and less exact but more concrete terms, that the expectations of the people and particularly of the entrepreneurs will become more and more correct.” (1937, 45)

It is in this manner that economics, Hayek argues, ceases to become purely an exercise in pure logic, and becomes in a sense an empirical science.³ It is in the study of how alternative institutional

³ Part of the confusion comes from an overly narrow interpretation of praxeology – which literally translated would mean the study of human action, and is not a methodology per se – and conflating praxeology with the pure logic of choice. If, instead, we insist on the broader interpretation of praxeology where the pure logic of choice is a necessary, but not sufficient component, then the conflict between Mises and Hayek fades into the background. Pure logic of choice must be complimented with the theory of exchange and the specifications of the institutions within which exchanges takes place. This framework of pure theory and applied theory, then becomes the interpretative frame from which historical research can be undertaken. Thus, Mises’s *Theory and History* (1957). Menger and Mises emphasized the necessity of pure theory, Böhm-Bawerk and Hayek reminded economists that there was a realm of applied theory that turned on specifying how alternative institutional environments impact the pursuit of the pure logic of choice and aid in the articulation of the situational logic of the firm and the market.

environments influence the behavior of individuals and how that in turn impacts the ability of these individuals to realize the gains from social cooperation under the division of labor. And the behavior we must focus our analytical attention on, is how they acquire and utilize the knowledge dispersed throughout the system, in other words how they learn how best to orient their actions with others so as to achieve a coordination of plans that defines the equilibrium of the system.

Mises, not Hayek, was the first to argue that socialism would have to forgo the intellectual division of labor in society, and that this was the decisive objection to socialism. (see 1927, 50) The emphasis on knowledge and how alternative institutional environments impact the discovery and utilization of knowledge was not completely unique to Hayek, though it is clear I would insist that he had a fuller grasp of the implications of the division of knowledge in society for economic theory than any of his predecessors or contemporaries. But, consider the following lengthy passages from *Human Action* (1949, 692):

“All older social reformers wanted to realize the good society by a confiscation of all private property and its subsequent redistribution; each man’s share should be equal to that of every other, and continuous vigilance by the authorities should safeguard the preservation of this equalitarian system. These plans became unrealizable when the large-scale enterprises in manufacturing, mining, and transportation appeared. There cannot be any question of splitting up large-scale business units and distributing the fragments in equal shares. The age-old program of redistribution was superseded by the idea of socialization. The means of production were to be expropriated, but no redistribution was to be resorted to. The state itself was to run all the plants and farms.

This inference became logically inescapable as soon as people began to ascribe to the state not only moral but also intellectual perfection. The liberal philosophers had described their imaginary state as an unselfish entity, exclusively committed to the best possible improvement of its subjects’ welfare. They had discovered that in the frame of a market society the citizens’ selfishness must bring about the same results that this unselfish state would seek to realize; it was precisely this fact that justified the preservation of

the market economy in their eyes. But things became different as soon as people began to ascribe to the state not only the best intentions but also omniscience. Then one could not help concluding that the infallible state was in a position to succeed in the conduct of production activities better than erring individuals. It would avoid all those errors that often frustrate the actions of entrepreneurs and capitalists. There would no longer be malinvestment or squandering of scarce factors of production; wealth would multiply. The "anarchy" of production appears wasteful when contrasted with the planning of the omniscient state. The socialist mode of production then appears to be the only reasonable system, and the market economy seems the incarnation of unreason. In the eyes of the rationalist advocates of socialism, the market economy is simply an incomprehensible aberration of mankind. In the eyes of those influenced by historicism, the market economy is the social order of an inferior stage of human evolution which the inescapable process of progressive perfection will eliminate in order to establish the more adequate system of socialism. Both lines of thought agree that reason itself postulates the transition to socialism."

It is important to note a few themes in this extended passage. First, note the role that assuming for sake of argument the assumption of benevolence plays in Mises's argument. This actually follows from a strict adherence to Weberian value-free analysis. Assuming that the ends of the proponent of X, Y, Z reform only intends to promote the general welfare, not their private individual or group interest is a critical assumption to getting positive economic analysis of public policy off the ground. Mises was doing positive economics prior to the development of the philosophy of positivism. Means/Ends analysis was strictly speaking the foundation for an objective science of economics. Second, note the damage that is done positively and normatively by the assumption of omniscience in economic and political economy analysis. Third, note that Mises is agreeing with Hayek in the necessity to challenge the "abuse of reason" by way of rational analysis. In short, Mises's analysis provides the background and motivation of Hayek's work in *The Road to Serfdom* (1944) and *The Counter-Revolution of Science* (1952).

There is no gapping divide between Mises and Hayek methodologically, analytically, and ideologically. Hayek is simply the most talented Misesian thinker we have seen, and in developing that Misesian system he has pushed in creative and productive ways that Mises may not have been able to see during his scientific era. But it is not like Hayek hasn't told us this in private and public pronouncements.

In a letter to Mises in 1931, as Hayek is being well received at the LSE, he writes:

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

I am aware, for the first time, that I owe to you virtually everything that gives me an advantage as compared to my colleagues here and to most economists even outside my narrow field of research (here my indebtedness to you goes without saying). In Vienna one is less aware of [this intellectual debt to you] because it is the unquestioned common basis of our circle. If I do not deceive too many expectations of the people here at LSE, it is not to my credit but to yours. However, [my] advantage [over the others] will disappear with your books being translated and becoming generally known...

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

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

"I just learned he was usually right in his conclusions, but I was not completely satisfied with his argument. That, I think, followed me through my life. I was always influenced by Mises's answers, but not fully satisfied by his arguments. It became very largely an attempt to improve the argument, which I realized led to correct conclusions. But the question of why it hadn't persuaded most

other people became important to me; so I became anxious to put it in a more effective form. In my interests, I've been very much guided by him. Both the interests in money and industrial fluctuations and the interest in socialism comes very directly from his influence. Being for ten years in close contact with a man with whose conclusions on the whole you agree but whose arguments were not always convincing to you was a great stimulus."

Friend and foe of the Austrian school of economics have made an error in not seeing the shared research program of Mises and Hayek for the humanities and the social sciences, and how the institutional and epistemic turn in the 1940s and 1950s by Hayek was pre-staged by the work of Mises in the 1920s and 1930s. There are very subtle and important differences no doubt, but a plausible and productive reading of their work provides us, I'd argue, with a more formidable analytical framework to take on the excessive formalism and excessive aggregation which gripped hold of the economics profession mid-20th century and has yet to let fully go, and which resulted in the alliance of statism and scientism that has both distorted the nature of the disciplines of economics, political economy and social philosophy and made a mess of things in practical affairs.

So, to sum up my position, the best way to read Mises is as a Hayekian with the emphasis on knowledge and spontaneous coordination, and the best way to read Hayek is as a Misesian with the emphasis on the indisputable importance of pure theory and how the logic of choice provides the necessary foundation for the situational logic of the market. The clues to this productive reading are to be found in Mises's discussion of the compositive method and in his discussions of epistemological importance of Menger's invisible hand explanation of the origins of money, and in Hayek's discussions of the pure logic of choice, the facts of the social sciences, the primacy of the abstract, the philosophical implications he draws from his theory of mind. Historians and philosophers of sciences are right to stress their differences, but as economists and political economists eager to forge a framework of analysis, the Mises-Hayek program is stronger than either one treated in isolation from the other.

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