

# REVISITING HAYEK'S POLITICAL ECONOMY

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ADVANCES IN AUSTRIAN ECONOMICS VOLUME 21

# REVISITING HAYEK'S POLITICAL ECONOMY

EDITED BY

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# INTRODUCTION

F.A. Hayek, noted Austrian economist and key figure in the growth of Austrian economics in the 20th century, won the Nobel Prize in economics in 1974 for his contributions to technical economics. As the Nobel Committee noted, “Hayek’s contributions in the field of economic theory are both profound and original. [...] Hayek’s analysis of the functional efficiency of different economic systems is one of his most significant contributions to economic research in the broader sense.”<sup>1</sup> In addition to his contributions to economics, however, Hayek has also written quite extensively on political economy, political and legal theory and psychology as well as several other areas (Caldwell, 2004, pp. 323–369). As Ebenstein (2001, p. xi) describes, “Hayek was the greatest philosopher of liberty during the 20th century. His contributions to political theory and philosophic economics are immense.”

Although Hayek continued to write on economic themes throughout his career, his most significant contributions to technical economics, especially on the ability of markets to make use of dispersed knowledge, monetary and trade theory, and the impracticalities of socialism, came earlier in his career. For instance, his seminal works. *Monetary Theory and the Trade Cycle*, *Prices and Production*, *Profits, Interest and Investment* and *The Pure Theory of Capital*, were published in ([1929] 1966, [1933] 1967, [1939] 1975, [1941] 1975), respectively.

Although his seminal article, “The Use of Knowledge in Society,” was published in 1945, one year after the *The Road to Serfdom* (1944), Hayek’s most well-known book, was published, it is fair to say that Hayek’s focus increasingly shifted away from technical economics and toward political economy and social philosophy in the mid-1940s. In the *Road to Serfdom*, Hayek argues that attempts to intervene in the market that distort and disrupt the markets ability to facilitate the coordination of market actors will not only fail but would place society on the road to serfdom. The logic of interventionism is that the failure of an intervention presents a problem for policy makers that they can only “solve” by abandoning the original intervention or attempting further interventions. It was a best seller in England and the United States, where the *Reader’s Digest* published a very popular condensed version. *The Road to Serfdom* has also been translated into

nearly twenty languages and “unauthorized” translations of the book circulated throughout Eastern and Central Europe before the Berlin Wall collapsed.

Like *The Road to Serfdom*, Hayek’s *the Constitution of Liberty* (1960) and his *Law, Legislation and Liberty* are as much contributions to political philosophy and legal studies as they are contributions to political economy. In the *Constitution of Liberty*, Hayek argues that a constitution that guards against arbitrary coercion and ensures an equal sphere of liberty for all citizens can promote economic growth and a liberal order. Similarly, in the *Law, Legislation and Liberty*, Hayek explores how humans acting in pursuit of their goals but in accordance with formal and informal rules of conduct can produce social orders that no one intended. Both the *Constitution of Liberty* and *Law, Legislation and Liberty* speak to how society is possible and the role of government and various systems of governance in promoting economic and social progress.

Hayek’s contribution to *psychology*, *The Sensory Order*, as well as his contributions to *philosophy and the philosophy of science*, *Studies in Philosophy, Politics and Economics*, *New Studies in Philosophy, Politics and Economics*, and *The Counter-Revolution of Science*, are also worth mentioning.

Not surprisingly given the breath of his corpus and the depth of his analysis, Hayek continues to be relevant across the social sciences and humanities. As one citation study revealed, Hayek was second only to Kenneth Arrow in terms of the citations by other Nobel Prize winners in their Nobel Prize address (see Skarbek, 2009). Google Scholar counts over 70,000 citations to Hayek, whereas Milton Friedman has a count over 100,000, but George Stigler under 50,000. Marx has a Google count of citations over 1 million, and Keynes in the range of 800,000. If we look at the more restricted accounting of the Web of Science, we can see Hayek’s influence grow over time as tracked by citations in the literature (Fig. 1).

Certainly these are all imperfect measures, but perhaps they are suggestive of the breadth of Hayek’s contribution and its influence on the research of other thinkers. It is not that surprising that Hayek’s “Use of Knowledge in Society” is his most widely cited essay, but on Google Scholar *The Sensory Order* (Hayek’s work in theoretical psychology) accounts for almost 1,000 citations.

Inspired by Hayek’s contributions to political economy and social philosophy, we established the F. A. Hayek Program for Advanced Study in Philosophy, Politics and Economics at the Mercatus Center at GMU. (<http://ppe.mercatus.org/>) in January 2012. The Hayek Program is part of

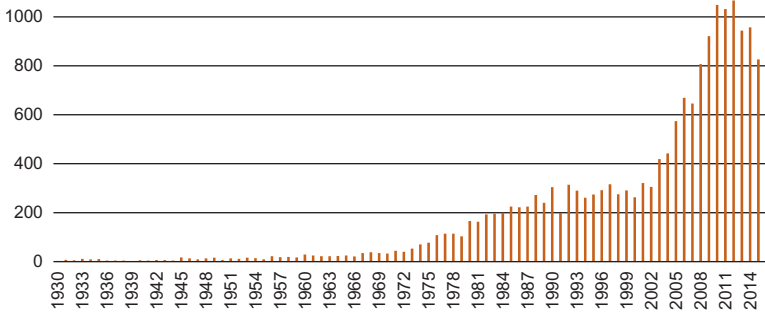


Fig. 1. F. A. Hayek Citations by Year, 1930–2016. *Source:* From Web of Science Cited References Search.

our graduate education and research activities in our PhD program in Economics at GMU (<http://economics.gmu.edu/>), and part of our Academic and Student Programs at the Mercatus Center (<http://grad.mercatus.org/>). While the history of economic thought and methodology are one of our strengths as a research group, our focus is not on intellectual history of economics, and certainly not hagiographic exercises in Hayek studies, but on political economy as a progressive research program. However, it is often important to stress an understanding of the past to see how where you came from may influence where you are going.

On October 2–5, 2014, the Hayek Program hosted an event to reflect on Hayek’s Nobel Prize (1974) and the various strands of influence his work has had in the subsequent decades. We wanted to explore that idea and see where it may lead us in the future of economics and political economy. The conference we organized consisted of two parts. The first part included an address by Professor Israel Kirzner on the importance of Hayek’s Nobel for the resurgence of interest in the Austrian School of Economics in the 1970s and what has come to be known as “The Austrian Revival.” Kirzner’s address was followed by a panel discussion of Nobel winning economists – Edmund Phelps, Erik Maskin, and Vernon Smith – on the various ways in which their work was influenced by Hayek. We also found in the archives at the Buchanan House a previously unpublished paper from 1979 by James Buchanan that we included in the published symposium. Those papers all appeared in the September 2015 issue of *The Review of Austrian Economics*.

Following the opening day, we also held a 2-day conference where the papers that constitute this volume were presented and discussed. These

papers are intended to address the ways that Hayek's ideas are currently being developed in a variety of academic disciplines and various fields of study. We were fortunate to attract leading representatives of various aspects of what could be termed Hayekian ideas: Bruce Caldwell, Mario J. Rizzo, Lawrence H. White, Robert L. Axtell, Viktor J. Vanberg, Michael C. Munger, and Paul Aligica.

Caldwell provides the historical context of Hayek's Nobel Prize and offers a number of vignettes regarding his award. He examines Hayek's life before he received the Nobel prize, describes the events in Stockholm, and offers a summary of the main themes of his Prize Lecture, which is perhaps the Nobel lecture that is most critical of the economics profession. He then examines the subsequent impact on Hayek's life and career. Caldwell concludes by looking at the impact of the Prize on scholarship about Hayek and the Austrian movement.

Rizzo addresses the question of rationality in Hayek's system and addresses the current intellectual fashion of behavioral economics. Rizzo argues that an underappreciated aspect of F. A. Hayek's discussions about rationality is the inter-relation of the "pure logic of choice" and rule-following behavior. Some scholars argue that Hayek abandoned his earlier understanding of individual rationality and replaced it with a completely rule-oriented conception of decision-making. But, Hayek's conception of individual rationality was always pragmatic, contextual, modifiable, and ecological. Rizzo suggests that Hayek was decades ahead of contemporary neoclassical economists in understanding the nature of decision making when agents have cognitive limitations and in which the structure of the environment is complex.

White turns our attention to Hayek's impact on modern macroeconomics, especially after the Global Financial Crisis. As White points out, F. A. Hayek's macroeconomic theory and policy ideas have received increased attention since the cheap-money boom until 2007, and subsequent bust, followed the basic Hayekian narrative. The educational rap videos pitting Keynes and Hayek have received well over a million views. White, however, finds that Hayek has had only a very limited influence on the agenda of mainstream macroeconomic researchers since Robert Lucas's research program gave way to "Neoclassical" and "New Keynesian" dynamic stochastic general equilibrium models. We only find examples of deeper interest in Hayek's macroeconomic theories on the periphery of the mainstream. Similarly, Hayek's influence on today's macroeconomic policy discussions remains limited.

Robert Axtell takes us in a slightly different direction methodologically and analytically. Axtell is interested in the further development of Hayekian ideas concerning complex and adaptive systems. He argues that Hayek's ideas and intellectual history place him as one of the prominent precursors to the modern field of complex adaptive systems analysis. Additionally, Axtell argues that Hayek's ideas about the market process, money and business cycles, and the spontaneous coordination of plans have, in fact, been well served by the methodology and modeling techniques offered by agent-based modeling.

The remaining three papers discuss Hayek's impact or potential impact in the fields of political science and social theory. Vanberg addresses Hayek's arguments for constitutionalism and federalism. He compares Hayek's ideas with those of James Buchanan and Barry Weingast. Vanberg also attempts to counter aspects of the critique of "neo-liberalism" that is frequently aimed at Hayek by way of clarifying some ambiguities in Hayek's own presentation.

Munger, on the other hand, addresses Hayek's contributions to the field of political theory/political philosophy. He argues that Hayek was a throwback to the time when economics was a part of philosophy, and the questions and approaches used by scholars were ecumenical. The political science that Hayek practiced was concerned with society and norms as well as laws. Munger argues that to the extent that Hayek considered institutions outside of the market context, and those that dealt with collective decision making, his work made substantial contributions to political science. The fact that political scientists seem to disagree, Munger concludes, may say more about the current state of the discipline than the work of F. A. Hayek.

Finally, Aligica, Boettke and Tarko tackle what they term Hayek's epistemic turn in social and political sciences. Hayek's point, they argue, was not just that the price system aggregated dispersed knowledge, but also that the knowledge embedded in prices would not exist absent the market process. Later, in *The Constitution of Liberty*, he argues that this same idea can also be applied to the study of political and collective choice phenomena. Democracy is not just about aggregating preferences. Absent the democratic process of deliberation, the knowledge necessary to solve collective problems is not generated. They argue that the question "Which collective choice arrangements have the best epistemic properties?" is one of the most important neglected questions in political economy.

As editors of this volume, it is our sincere hope that these papers will be read as invitations to inquiry by those attracted to Hayek's ideas and that

readers think creatively about ways to develop Hayekian ideas in the social sciences and humanities. The entire project was done in the spirit of looking backward with the purpose of figuring out the various ways forward. We are striving to aid in the development of a progressive research program in the social sciences and humanities; one that gives priority to understanding the human condition and, in particular, what institutional patterns are conducive to productive specialization and peaceful social cooperation.

Peter J. Boettke  
Virgil Henry Storr  
*Editors*

## NOTE

1. Royal Swedish Academy Press Release regarding the 1974 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, October 9, 1974.

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