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HAYEK'S SCIENTIFIC SUBJECTIVISM

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In the introduction to his suggestive account of Hayek's postmodern moments, Theodore Burczak (1994) is careful to stress that his reconstruction is based on selected elements of Hayek's thought. He acknowledges that Hayek's postmodernism is nascent and that it is best considered an unintended consequence of his writings, this because in the few places that Hayek wrote about postmodernism, he was negative about it. He points out that Hayek's work coheres with the hermeneutic but not the antihumanist variant of postmodernism, and that certain aspects of Hayek's thought are inconsistent even with the hermeneutic version. With all of this I agree. Hayek argued often with modernist foes, and in doing so he sometimes made postmodern sounds, mostly when he defended subjectivism. But in the end he resisted taking the "interpretive turn" toward a more thorough-going hermeneutics. Hayek's attempt to find a middle way is the source of considerable tension in his work, a tension that accounts for the possibility of multiple plausible interpretations of his position.

Burczak reaches his conclusions based on a textual exegesis. This brief note will supplement his paper by providing some context for Hayek's antimodernist statements, and by showing why he might have resisted taking the step from antimodernism to postmodernism. The final section challenges Burczak's characterization of Hayek's views on the operation of a free market.

1. THE EMERGENCE OF HAYEK'S ANTIMODERNISM

Hayek's early writings contain modernist elements. For example, in a paper first published in 1926, Hayek took to task the empirical business cycle studies of Wesley Clair Mitchell and other institutionalists. Though he praised them for identifying certain trends and interconnections in

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the data, he also accused the institutionalists of practicing a form of "symptomalogy," which he felt was "of little help when what is at issue is not detailed interconnections but the cause of cyclical fluctuations in general" (Hayek, 1984, pp. 6–7). Three years later Hayek generalized this argument. In the opening chapter of *Monetary Theory and the Trade Cycle* ([1929] 1966) he all but equated "doing science" with "providing a theory." Hayek further claimed that any adequate theory must be shown to cohere with the fundamental findings of "equilibrium theory," or supply-and-demand analysis.

Though in this instance he was arguing against another form of modernist thought, I submit that Hayek's arguments in this period themselves have a distinctively modernist ring. In particular, both his insistence on the primacy of a scientific understanding of economic phenomena, and his narrowly prescribed limits on what constitutes such an understanding, seem characteristic of a modernist approach.

It was Hayek's mentor Ludwig von Mises who began in the later 1920s to develop antimodernist arguments against his manifold opponents, and especially against the positivists. Mises' original goal, one which he hoped to achieve via a critique of the work of Carl Menger and Max Weber, was to provide a more thorough-going subjectivist foundation for the science of human action. He felt that such a foundation, if successfully constructed, would undercut the appeal of positivist methods in the social sciences. Mises had even greater ambitions: By positing the starting axioms of his system as apodictically certain, he hoped to establish the logical necessity of the analysis which followed. These arguments were developed in Mises' *privatseminar* in the later 1920s, which Hayek attended.[1]

Hayek never accepted Mises' *a priorism*, but he did follow him in the movement towards subjectivism. Other factors also influenced him in this direction. In the early 1930s he edited Menger's papers, and came to a better understanding of Menger's subjectivist and "compositive" method. In addition, the emerging importance of questions of expectation and foresight in economic analysis forced him to consider the

1. Mises ([1933] 1981a) contains the early essays on the logic of choice and his critiques of Menger and Weber. The most complete and systematic account of these ideas may be found in the first seven chapters of Mises ([1949] 1966). His antagonism towards positivism dates to Eugen Böhm-Bawerk's famous economics seminar, which Mises attended together with Joseph Schumpeter, the Austro-Marxist Otto Bauer, and Otto Neurath, who in the 1920s would participate in the Vienna Circle of logical positivists. In his memoirs Mises (1978, p. 40) praised Böhm-Bawerk's ability to lead such a diverse group. But he also lamented that Böhm's open approach "was occasionally abused by thoughtless speakers. Especially disturbing was the nonsense which Otto Neurath presented with fanatical fervor" (*Ibid*). Mises' own book on socialism (Mises, [1922] 1981b), the opening salvo in the socialist calculation debate, was in part a response to Neurath's views.

nature of knowledge and its acquisition. But perhaps the most important factor accounting for Hayek's transformation was his participation in the socialist calculation debate.

With his usual penchant for the provocative, Mises ([922] 1981b) had argued in the 1920s that rational calculation under socialism was "impossible" because of the absence of market prices to direct the allocation of resources. A decade later critics challenged this claim. A planned economy could achieve all of the efficiency characteristics of a market economy (and without "wasteful competition") if the planners simply made sure that all the marginal conditions outlined in the general theory of equilibrium were met (for example, plant managers would be directed to set price equal to their marginal costs).

Hayek attacked this position indirectly through a reevaluation of the concept of equilibrium. He began by noting that the concept of equilibrium for an individual agent is unproblematical. An agent has her own subjective perceptions and beliefs, and forms a plan of action according to them.[2] The perceptions and beliefs may turn out to have been wrong, but at the time of action the agent is always in equilibrium, given those perceptions and beliefs.

Equilibrium for society is another matter. Society is composed of many agents, all having their own (and possibly conflicting) perceptions and beliefs. There is also the problem of the dispersion of information: Perceptions and beliefs depend on the particularities of time and place. Agents again make plans according to these "subjective data." But societal equilibrium only obtains when the plans of these agents are mutually compatible, when their subjective perceptions cohere with each other and with objective reality. As Hayek put it in his famous 1937 essay, "Economics and Knowledge," ". . . the question why the data in the subjective sense of the term should ever come to correspond to the objective data is one of the main problems we have to answer" (Hayek, 1948, p. 39).

In trying to answer this question, Hayek was led away from his early (and, as I claimed above, modernist) adherence to equilibrium theory and toward the "market process" view that characterizes more recent Austrian analysis. Because of its assumption that all agents possess the same objectively correct information, equilibrium theory is able to focus on end-states in which coordination is already achieved. As such, it is of little use for grasping the process by which coordination takes place. In contrast, the market process view allows one to identify the role of freely adjusting market prices in conveying information and

2. Hayek calls these perceptions and beliefs the "subjective data" of the social sciences. He also sometimes refers to beliefs as "knowledge," and thus talks of "correct vs. incorrect knowledge," which may be confusing to those who follow standard philosophical usage and restrict knowledge to true belief.

coordinating activity among agents. As Hayek put it, "it is only through the process of competition that the facts will be discovered."[3]

It was within this context that Hayek wrote the sorts of things that would strike later readers as characteristically postmodern. Many of these notions occur in papers written in the late 1930s and 1940s which are collected in *Individualism and Economic Order* (1948); they may also be found in his wartime essay "Scientism and the Study of Society" ([1942–44] 1979). In his reconstruction, Burczak liberally refers to both sources.

2. HAYEK'S RESISTANCE TO THE HERMENEUTIC TURN

Hayek's resistance to hermeneutics is harder to document because, as Burczak points out, he wrote so little about it. It is probably better to characterize Hayek as a non-hermeneut rather than as an anti-hermeneut, to indicate that it is a path that he chose not to follow rather than as one that he vigorously opposed.[4]

The best evidence of Hayek's unwillingness to take the interpretive turn is seen in his post-"Scientism" methodological writings. The "Scientism" essay is a defense of the "compositive" methodology of Menger (the latter is a form of methodological individualism in which it is claimed that social phenomena get built up, or composed, from the actions of many individuals, actions which do not have the larger social formations as intended consequences) as appropriate when the basic data of the social sciences are the subjective states of agents. It is also an anti-modernist attack on the "scientistic prejudice," defined as "the slavish imitation of the method and language of Science" (Hayek, 1979, p. 24), and which included collectivist, objectivist, and historicist elements. Hayek was arguing against the mindless transference of the methods of the natural sciences into the social sciences. This dualistic treatment of the methods of the sciences could have provided a perfect jumping off place for a full-fledged movement toward a more hermeneutical economics. If the subject matter of the social sciences truly is different, perhaps it requires its own, interpretive method of study.

But having come to edge, Hayek decided against the leap, and instead simply changed his argument. Rather than continuing to differ-

3. The passage is from Hayek's 1946 essay, "The Meaning of Competition," reprinted in Hayek (1948, p. 96). Austrians define competition broadly in terms of market rivalry, and argue that one need not have "perfect competition" in the textbook sense to achieve the benefits of rivalrous competition. The profession's focus on perfect competition was for Hayek another example of how a preoccupation with equilibrium analysis could mislead economists. The story of Hayek's transformation from equilibrium to market process theorist is more fully told in Caldwell (1988).

4. Not all Austrians have been as diffident as Hayek when it comes to hermeneutics. Ludwig Lachmann advocated that Austrians at least investigate taking the "interpretive turn," which he viewed as a potentially fruitful next step in the further extension of subjectivism. See Lachmann (1990); also his letter reproduced in Caldwell (1991).

entiate the natural from the social sciences according to their *methods*, he began to distinguish among the sciences according to the *complexity* of the subject matter that they investigate. For example, certain branches of physics study simple phenomena. Economics involves the study of complex phenomena.

Hayek characterized this change as a minor one. Its major implication was that sciences studying complex phenomena will face limitations that do not plague those studying simpler phenomena. For example, when complex phenomena are investigated, often the best one can do is to provide predictions of broad patterns of behavior, or to offer (in his terms) "explanations of the principles" by which such patterns might get formed. Hayek had said these same things about limitations in the "Scientism" essay, back when he was distinguishing the methods of studying social phenomena from the methods of the natural sciences. It is only from the perspective of one who prefers a more hermeneutic economics that Hayek's new way of putting things represents a retreat, since the new distinction emphasizes that economics is still very much a "scientific" discipline.

Hayek's 1952 book, *The Sensory Order*, may also be viewed as providing evidence of his reluctance to take the hermeneutic plunge. As a student in Vienna he studied psychology as well as law and economics, and in 1920 he wrote an essay that formed the foundation for the book that was published more than thirty years later. Burczak correctly emphasizes that parts of *The Sensory Order* read like the work of a postmodern hermeneut. Hayek's description of how the neural connections of the brain establish an "order" that governs how an individual perceives the world clearly contradicts Mach's sensationalist psychology. And because the neural connections are themselves affected by past perceptions, it also challenges the Kantian notion that the categories of the mind which govern perception are fixed. Hayek's argument that subjective perceptions provide the grounds for human action fits nicely into the postmodernist view that reality is constituted by our perception of it.

But in another sense the essay may be viewed as modernist. Hayek's project in *The Sensory Order* was to provide a physiological (hence "scientific") foundation for subjectivism. This fit into his larger project of providing a scientific basis for his bedrock claim that we face limits in our ability to understand and control complex phenomena. On this reading, Hayek was thoroughly committed to the scientific worldview. Where he differed from other modernists is that he believed that our scientific understanding of social phenomena face severe limits, and that these limits apply also to our ability to control such phenomena. Hayek's was not a hermeneutic critique of the dominance of a modernistic scientific worldview. Rather, it was itself a scientific critique of the scientistic modernist worldview.

3. EXPLAINING HAYEK'S RELUCTANCE TO TAKE THE INTERPRETIVE TURN

Why did Hayek forswear the interpretive turn? Was it all attributable to the pernicious influence of Karl Popper? One might think this after reading the Preface to his *Studies in Philosophy, Politics and Economics* (1967), a collection of Hayek's articles published in the 1950s and 1960s in which his theory of complex phenomena is given form:

> Readers of some of my earlier writings may notice a slight change in the tone of my discussion of the attitude I then called 'scientism.' The reason for this is that Sir Karl Popper has taught me that natural scientists did not really do what most of them not only told us that they did but also urged the representatives of other disciplines to imitate. The difference between the two groups of disciplines has thereby been greatly narrowed . . . (p. viii)

Ludwig Lachmann, who tried hard to convince Hayek of the errors of following Popper, doubtless saw the latter as the culprit.[5] And of course from a hermeneut's viewpoint Hayek's dalliance with Popperian thought was evidence that Hayek had not yet freed himself from the shackles of scientistic modernism.

Though he makes a convenient target, I do not think that Popper was to blame. Hayek first became aware of Popper's work when he read the *Logik* sometime around 1935. It was also about this time that Hayek was coming to realize that Ernst Mach's philosophy of science was unacceptable.[6] Popper's attempt to retain a scientific philosophy while skewering the positivist and Machian variants was immediately attractive to Hayek. Falsificationism appeared to provide a philosophy that was still "scientific" but which avoided certain of the modernist excesses of positivism. But given that much of Hayek's later writings in psychology, as well as his remarks about the limited prospects for falsifiability in economics, sit rather uneasily with Popper's positions, it is hard to attribute too much influence to Popper when trying to explain the later evolution of Hayek's thought.

The explanation for Hayek's avoidance of hermeneutics may be a much simpler one. In his work in the 1930s Hayek had argued that

5. Thus, when Lachmann would playfully call Hayek a "positivist" (see, for example, Boehm, 1991, p. 367), it was a double needling. He was suggesting the dire consequences of Hayek following Popper, but he also was teasing Popper, who saw himself as a critic of the positivists. For other observers Popper's influence was wholly benign (for example, Hutchison, 1981; 1992), while for still others it was virtually negligible (for example, Caldwell 1992a; 1992b).

6. Or so Hayek reports (1994, p. 54). Hayek at times has claimed to have been a Machian in his early years. If that was true, then he must not have realized that his 1920 essay challenged Mach's sensationalism until years after it was written.

economists in modeling reality should replace the assumption that agents possess the same objectively correct information with the assumption that agents possess dispersed and subjectively held information. In *The Sensory Order* he offered a scientific explanation of the origins and nature of such dispersed and subjectively held information. The hermeneutic approach, which gets at the same sort of subjectivity of data but from a different perspective, was for the scientifically inclined made redundant by the claims of *The Sensory Order*. Hayek's goal was to provide a scientific foundation for subjectivism, and he felt he had done so. For Hayek, hermeneutics was an unnecessary supplement.

It might also pose dangers. Recall that Hayek's larger project was to determine how the actions of agents whose subjective beliefs differ could ever become coordinated. Because of its focus on equilibrium end-states, equilibrium theory was rejected as a tool for furthering our understanding of the coordination problem. But a hermeneutics approach also is of little help (and the reservation applies even more strongly to a postmodern hermeneutics), albeit for different reasons. Equilibrium theory assumes that the coordination problem has already been solved. If one focuses instead on how our interpretations create and change the world, then the whole question of interpersonal coordination may become problematical. In a postmodernist setting in which reality is constituted by perceptions, with what reality do subjective perceptions then become coordinated? What sorts of information about that reality could changing relative prices ever convey? Hayek doubtless recognized that a full-blown acceptance of (at least a certain type of) hermeneutics might well undermine his ability to answer (or even to ask) the questions about coordination that were so central to his endeavor. These same concerns have caused divisions among latter-day Austrians.

4. SOME CLOSING COMMENTS ON HAYEK'S TELEOLOGY

Burczak points out that Hayek's thought includes teleological elements. He may be right, but the examples he chooses are not without problems. His first is Hayek's statement in the "Scientism" essay that social scientists should not consider "collectivist" concepts as legitimate guides to human action. Hayek was trying to make yet another argument against collectivism here, and as Burczak points out, if one takes subjectivism seriously the argument does not go through. If a number of agents believe in some concept, be it "collectivist" or not, whether true or false, it can still affect their action, and must be considered by the investigator as part of the subjective data of the science. Hayek was a prolific scholar who had an unfortunate habit of repeating himself. To his credit he never repeated this argument. This provides at least some evidence that he was aware that it was inconsistent with his other ideas.

Another example is the belief, attributed by Burczak to Hayek, that a free market economy is a "stable, full employment generator." As Burczak puts it, "in the last instance Hayek remains committed to demonstrating why free market competition will always produce full employment, or the coordination of individual plans." I do not believe that Hayek ever tried to demonstrate (or even to claim) that the market process leads to *full employment*. His claim is the much weaker one that an unrestricted market process holds the best chance that agents' plans will be coordinated, because freely adjusting relative prices provide information to agents about changing relative scarcities. Regarding economic policy, Hayek in his early work on the business cycle argued that the cycle is a more or less inevitable concomitant of a monetary economy (for example, Hayek, [1926] 1984). His fear was that in attempting to control the cycle, policymakers operating with (necessarily) insufficient information would mistime their efforts and thereby make things worse. This was consistent with his whole emphasis on the varied limitations humans face: on the knowledge that agents possess, on our ability to pursue activist policy, on our scientific understanding and control of social phenomena. In reminiscing about his early business cycle studies, Hayek put it with characteristic modesty as follows: " . . . what I had done had often seemed to me more to point out barriers to further advance on the path chosen by others than to supply new ideas which opened the path to further development" (Hayek, 1977, p. ix). This insight applies equally well to many of his other contributions.

It is true that Hayek was more sanguine about the prospects for coordination than was either Lachmann (who, if I understood his views correctly, believed that coordination generally dominates, but felt that it could not in principle be *demonstrated*) or George Shackle (who was pessimistic about the prospects for coordination). But this does not make him the sort of naive proponent of markets found on the last pages of Burczak's otherwise accurate and welcome addition to the literature.

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