

Hayek's Challenge: An Intellectual Biography of F. A. Hayek

Bruce Caldwell

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Bruce Caldwell's *Hayek's Challenge* is a significant contribution to philosophy and to economics. It is a valuable analysis of the setting for Hayek's emergence in 1920s Vienna. Caldwell explains as well the context of Hayek's work at the London School of Economics (LSE) in the 1930s and 1940s, at the Committee on Social Thought at the University of Chicago in the 1950s and 1960s, and finally at the University of Freiburg-im-Breisgau in the 1970s that led to his receiving the Nobel Prize in Economic Science in 1974. It is understandable that the book discusses but does not focus on Hayek's later major contributions in political philosophy and constitutional and legal theory; he lived from 1899 to 1992 and wrote copiously.

Caldwell studies the core role of knowledge theory in Hayek's work. The foundation for Hayek's knowledge theory is the Methodology Conflict (Methodenstreit) in late nineteenth-century German and Austrian academia. Caldwell gives us a full explanation of the challenge to the Younger German Historical School by Carl Menger of the University of Vienna and his Austrian colleagues, Eugen von Böhm-Bäwerk and Friedrich von Wieser. The German Historical School, drawing on Hegel and Herder, rejected natural-law doctrines and claimed that each nation was unique with its own nature. The Austrian School drew on the Western philosophical tradition of the universality of human nature. (Although Hayek avoided the concept of natural law until his late work, already in London and Chicago he became interested in the work of the Iberian Late Scholastics who became the subjects of studies by younger Austrian School scholars.)

Menger, in his *Investigations into the Method of the Social Sciences* (1883) countered the Historical School and showed, according to Caldwell, that "a theoretical approach to the investigation of social phenomena is, indeed, possible.... Although certain aspects of his defense of theory involved principles that are widely accepted today, other parts raised questions that would occupy many subsequent generations of students of methodology."

Caldwell concludes that Menger's "realist approach would not survive the dual assault of post-Kantian philosophy and positivism, although it would make him attractive again to certain late-twentieth-century philosophers of social science."

Ludwig von Mises' Vienna seminar engaged in discussions of epistemology, which culminated in the publication of Mises' *Epistemological Problems of Economics* (1933). Caldwell notes that Allen Oakley argues "that both Aristotelian (or reflectionist or realist) and neo-Kantian (or impositionist) elements are present in Mises' writings" and decided to "give priority to Mises' realist inclinations." (Mises' disciple, Murray Rothbard, was much influenced by John J. Toohey, S.J.'s *Notes on Epistemology* [Georgetown University Press, 1952].)

Hayek attended the Mises seminar from 1924 until 1931, when he left for the LSE. Mises placed himself in the tradition of the Southwest German School of Wilhelm Dilthey, Wilhelm Windelband, Heinrich Rickert, and Max Weber. Mises' *Theory and History* (1957) was a continuation of this focus. Mises' seminar addressed Max Weber's social science methodology, the phenomenology of Edmund Husserl, and the logical positivism of the Vienna Circle.

Felix Kaufman was a member of both the Mises seminar and the Vienna Circle. Also, Kaufman was friendly with another Mises student, Gottfried Haberler, whom he asked to read Karl Popper's *Logik der Forschung*. Haberler then recommended it to Hayek, who invited Popper in the spring of 1936 to present "The Poverty of Historicism" at Hayek's LSE seminar. Karl Popper added further elements to Hayek's thinking.

Hayek had been brought to LSE by the head of economics, Lionel Robbins, to bolster the role of theory in English economic thinking. Robbins' famous work *An Essay on the Nature and the Significance of Economic Science* (1932), was his major contribution. According to Caldwell, Robbins held that "economic theory has at its foundation a number of basic postulates. The postulates are that ends are multiple and can be ordered, that alternative means for achieving ends exist, that means and time are limited and capable of alternative application, and that one must choose among ends and among means to satisfy them."

Caldwell's centerpiece is Hayek's essay, "Economics and Knowledge" (1937). The essay, in its own words, examined "the role which assumptions and propositions about the knowledge possessed by different members of society play in economic analysis." Hayek later explained that this essay's "main conclusion was that the task of economic theory was to explain how an overall order of economic activity was achieved which utilized a large amount of knowledge which was not concentrated in any one mind but existed only as the separate knowledge of thousands or millions of different individuals."

Among the key ideas in the essay, Caldwell especially notes "dispersed knowledge":

But, when the dispersion of knowledge is also asserted, the key question is no longer that of a movement to equilibrium but that of the coordination of such knowledge. The dispersion of knowledge is not a temporary condition that gets eliminated by some movement to equilibrium. It is a permanent condition. If everyone always has different bits of information, in a world of constantly changing data the question naturally arises: How can the fragments of knowledge that exist [in] different minds ever come to be coordinated?

An important influence on Hayek, starting in the 1930s, was the scientist and philosopher, Michael Polanyi. Caldwell notes Polanyi's influence on Hayek's concept of spontaneous order. "Such an order," Hayek wrote, "involving an adjustment to circumstances, knowledge of which is dispersed among a great many people, cannot be established by central direction. It can arise only from the mutual adjustment of the elements

and their response to the events that act immediately upon them. It is what M. Polanyi has called the spontaneous formation of a ‘polycentric order.’” However, Caldwell adds: “In my opinion, Hayek’s clearest debt to Polanyi concerns the idea of ‘tacit knowledge.’ The concept complements Hayek’s earlier notion of knowledge of time and place and provides grounds for his claim that we often cannot articulate what rules lie behind our actions.”

Hayek continued his analysis in his various works but in particular in “The Use of Knowledge in Society” (1945) in which he “again emphasizes that the coordination problem is the chief problem of economics.” Hayek concludes:

There is something fundamentally wrong with an approach which habitually disregards an essential part of the phenomena with which we have to deal: the unavoidable imperfection of man’s knowledge and the consequent need for a process by which knowledge is constantly communicated and acquired. Any approach, such as that of much of mathematical economics with its simultaneous equations, which in effect starts from the assumption that people’s knowledge corresponds with the objective facts of the situation, systematically leaves out what is our main task to explain.

A recent work addressing these issues is Gerald P. O’Driscoll Jr. and Mario Rizzo’s work *The Economics of Time and Ignorance* (1985).

In the late 1930s, Hayek turned to his “Abuse of Reason Project.” Michael Polanyi criticized the movement for science-planning in *The Contempt of Freedom* (1940). Hayek began to study the false application of science to society starting in the French Enlightenment. His critique of “Scientism and the Study of Society” (1942–1944) grew into *The Counter-Revolution of Science: Studies on the Abuse of Reason* (1952). This book became the text of Hayek’s seminar as professor of social and moral science at Chicago’s Committee on Social Thought. Hayek called his Chicago interdisciplinary seminar “one of the greatest experiences of my life.” Caldwell reports on Hayek’s course outline: “The outline also indicated that Hayek would review the problem of induction (with sections on verification and falsification) and the positivist tradition (Comte, Mach, and Pearson as well as pragmatism, logical positivism, physicalism and operationalism were listed parenthetically here).” Scientists such as Enrico Fermi participated.

Hayek found a positive reference point in the Scottish Enlightenment against the French Enlightenment’s “Abuse of Reason.” For Hayek, the fundamental discovery of the Scottish Enlightenment, “rediscovered by Menger, was that many social institutions that benefit mankind gradually emerge and evolve with little guidance from the agents that create them, that these institutions are the result of human action but not of human design.”

Hayek pursued his interest in regularities, rules, and orders in “Rules, Perception, and Intelligibility” (1962), and “The Theory of Complex Phenomena” (1964). In 1960, he wrote to Karl Popper that this current work “began with an attempt to restate my views of the nature of economic theory, and the concept of higher-level regularities

which I then formed continues to occupy me and seems fruitful far beyond the field of economics. I suspect it is really what Bertalanffy with his General Systems Theory was after and the concept itself was of course already implied in my 'Degrees of Explanation' (1955)." (The above three Hayek essays can be found in *Studies in Philosophy, Politics, and Economics* [Chicago: University of Chicago Press, 1967].)

Caldwell has wrestled with several complex themes in Hayek's philosophical writing and has provided us with an indispensable guide.

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