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HAYEK AND HISTORICAL POLITICAL ECONOMY*

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The historical method ... shows us how the 'cash-nexus' ... is essential to the independence of the labourer.

TOYNBEE 1888, 163

Most people are still reluctant to accept the fact that it should be the disdained 'cash-nexus' which holds the Great Society together.

HAYEK 1976, 112

Hayek's opposition to the historical approach to political economy was unwavering over the course of his career. In spite of Hayek's antagonistic attitude, this article argues that certain elements of his stance after «Economics and Knowledge» (1936) were raised by historical political economists in the final decades of the nineteenth century. The point is not to suggest a direct influence of historical economists on Hayek, but one mediated by the geographical, linguistic, and cultural proximity of Austria and Germany. As documented in section 1, plenty of evidence indicates that the *Methodenstreit* between Menger and Schmoller did not entail a sharp separation between the two camps. Section 2 shows that Hayek's interpretation of the «younger historical school» was severely biased. In section 3, the following facets of Hayek's thought are considered: his concern with realism; the acknowledgement of complexity; the willingness to address policy issues; his peculiar history of modern thought; his ambivalence about value judgements; his focus on institutions and social rules; and a view of evolution as regulated by group superiority. A contrast is sketched between Hayek as an advocate of the «primacy of the abstract» and Schmoller as an upholder of the primacy of the concrete. In section 4, an interpretation of Hayek's thinking centred on value judgements is put forward.

1. FRIENDS OR FOES?

HAYEK's opposition to the historical approach to political economy was unwavering over the course of his career. Drawing on Menger's *Untersuchungen über die Methoden der Sozialwissenschaften*, Hayek regarded the Schmollers and Brentanos as foreign to true economics

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– a dangerous, but transitional, hiccup in the progression of economic theory. In spite of Hayek's antagonistic attitude, this article argues that certain elements of his stance after «Economics and Knowledge» (1936) were raised by historical political economists in the final decades of the nineteenth century.¹

Plenty of evidence indicates that the *Methodenstreit* between Menger and Schmoller did not entail a sharp separation between the two camps. Neither Menger nor Schmoller held extreme methodological credos, so that when it came to their application the former wrote an evolutionary account of money and the latter put to use aspects of marginal utility theory in book three of his *Grundriß der allgemeinen Volkswirtschaftslehre* (Menger 1950 [1871], 257-285; 1892; Schmoller 1900-1904: esp. ii, 100-173, 418-463; see Bruch 1988, 230-232; Gioia 1990, 191-210; Peukert 2001, 81-84, 90-93). Schmoller's review of the *Untersuchungen* was critical but appreciative of specific points; by the turn of the century he made it clear that his inductivism did not exclude theory (Pearson 1999, 551). Menger acknowledged that the «theoretical» approach included a «realistic-empirical orientation» alongside the «exact» orientation (Menger 1963 [1883], 63). Recent scholarship has shown that most methodological positions in both Germany and Austria were moderate in tone and substance, and that in both countries the combination of deductive analysis with history and statistics, although in variable doses, was the rule rather than the exception.²

German political economy cannot be depicted as an army following Schmoller under the banner of the historical approach. Important figures like Schäffle, Wagner, and Lexis did not adhere to the historical line of research; Bücher, Brentano, Wagner, Dietzel, and Max and Alfred Weber sided with Menger in the *Methodenstreit*.³ In the wake of it, a new generation of German economists led by Schmoller's student Spiethoff attempted to resolve the chasm between historico-

1. For an assessment of historical political economy and a criticism of the rubric 'historical school', see GRIMMER-SOLEM and ROMANI 1998, 1999, and GRIMMER-SOLEM 1998. CALDWELL 2004, 77-78 argues that «the Austrians and the German historical school economists actually shared many views», and in particular Caldwell holds that both groups i) employed a representative agent differing from the neoclassical *homo oeconomicus*, ii) opposed positivism, iii) opposed Marxism, iv) focused on the origins of institutions, v) argued that institutions «grow organically», and vi) were suspicious of democracy.

2. See HUTCHISON 1953, 180-186, 293-298; 1973; HAUSER 1988; HUTCHISON 1988, 117; GIOIA 1990, esp. 112-120; DOPFER 1994, 152-153; GRIMMER-SOLEM and ROMANI 1998; STREISSLER 1998, 497-498; PEARSON 1999; LINDENFELD 2002, esp. 73-74.

3. On Bücher, see e.g. RIHA 1985, 99, n. 55; on Brentano, see LINDENLAUB 1967, i, 96 ff.; on Wagner, see e.g. RIHA 1985, 89; on Dietzel, see RIHA 1985, 97, n. 13 and KURZ 1995, 16-18; on Alfred Weber, see DEMM 1987; on Max Weber, see esp. SCHÖN 1987; HENNIS 1991, 27-35; BURGALASSI 1992; TRIBE 1995, 80-94. On Conrad, see BÖHM-BAWERK 1890, 270. As regards analysis, historical economists like Roscher, Knies, and Hildebrand put forward many 'protoneoclassical' arguments: STREISSLER 1998.

empirical and theoretical analysis. By 1914, the *Methodenstreit* was over as far as German economists were concerned (Krüger 1983; Balabkins 1988, 67-85; Tribe 1995, 78-94; Kurz 1995; Gioia 1997).⁴

As regards the Austrians, Philippovich explicitly attempted to bridge the gap between the two opposing groups, in parallel with Wagner's similar attempt in Germany.⁵ Wieser's analyses of innovation and business organization «built a bridge towards the German historical school» (Streissler 1986, 96). While Wieser always regretted the time and energy that Menger had devoted to method (Hayek 1926, 115), Böhm-Bawerk's attitude towards methodological issues was conciliatory – he was «in favour of the equality of the two methods» (Böhm-Bawerk 1890, 249). Böhm-Bawerk made two points which younger Austrians would regularly take up: first, that historical economists initiated the controversy, and, second, that they rejected theory (Böhm-Bawerk 1890; 1891, 363). Both claims are false (e.g. Grimmer-Solem and Romani 1999, esp. 338-340; Peukert 2001, 84-93). As for Mises, his initial interests were primarily historical and related to a concern with social policy.⁶

Schumpeter provides telling evidence that the intellectual gulf that separated German and Austrian economics has been exaggerated. Schumpeter, who caricatured the «younger Historical School» as a bunch of deviants and hacks (Schumpeter 1986 [1954], 802-803, esp. n. 6), attended Schmoller's seminar in Berlin in the spring and summer of 1906, and published an essay in *Schmollers Jahrbuch* one year later (Allen 1994, i, 59, 65; Streissler 1990, 40-41). His early account of the historical method and the *Methodenstreit* is balanced and respectful (Schumpeter 1954 [1912], 152-180).⁷ Schumpeter sympathetically appraised Schmoller's work in a 1926 article devoted to the German economist (Schumpeter 1926). Like those of most Austrians, Schumpeter's interests embraced both theory and history, as especially *Business Cycles* demonstrates. On the methodological plane, Max Weber's teachings exerted a strong influence on Schumpeter, who paid tribute to him in an obituary heaping fulsome praise (Schumpeter 1991

4. That theoretical economics was not dismissed in Germany is also testified to by three mathematical economists: the distinguished statistician, Wilhelm Lexis, the Munich professor, Julius Lehr, and Wilhelm Launhardt. Furthermore, one can mention Karl Diehl, Ludwig Pohle, Richard Passow, Andreas Voigt, and Franz Oppenheimer as examples of analytically oriented economists. See HUTCHISON 1953, 186-188; HOWEY 1960, 139-142; and KURZ 1995.

5. Philippovich, who was claimed by both camps, wrote a textbook that was for a time the most widely used in German-speaking Europe; see PHILIPPOVICH 1893-1907. His methodological views are in PHILIPPOVICH 1886.

6. See esp. Mises's *Die Entwicklung des gutsherrlich-bäuerlichen Verhältnisses in Galizien, 1772-1848* (1902).

7. See also Schumpeter's remarks in SCHUMPETER 1908, ch. 1, sect. 2. Interestingly, Wieser's review of this book appeared in *Schmollers Jahrbuch* in 1911.

[1920]; see Osterhammel 1987). Weber was equally important to other Austrians, including Mises and Hayek (Caldwell 2004, 83-99). After finishing his law degree, Hayek intended to spend a year in Munich, where Weber taught (Ebenstein 2001, 31).

As regards the organization of teaching and research, Austrians and Germans collaborated in various ways. The Germans Stein, Schäffle, Brentano, Miaskowski, Wagner, Inama-Sternegg, and Max Weber held chairs in Vienna and other Austrian universities. Philippovich taught at Freiburg and later at Vienna. Menger sent Böhm-Bawerk and Wieser to train under Knies, Hildebrand, and Roscher (Streissler 1990, 34-35, n. 10, 44-45). The journal that Hildebrand founded and edited, the *Jahrbücher für Nationalökonomie und Statistik*, published important articles by Menger, Böhm-Bawerk, and other Austrian economists;⁸ one of Menger's articles deals with the method of economics (Menger 1995 [1889]). In 1892, Menger wrote the article «Money» for the standard German dictionary, the *Handwörterbuch der Staatswissenschaften*; Wieser succeeded him in the fourth edition. Böhm-Bawerk, Wieser, and other Austrians attended the meetings of the *Verein für Sozialpolitik* on a regular basis (Roversi 1984, 111). At the meeting held in September 1928, Hayek presented a paper on monetary theory to an audience including Mises, Machlup, Morgenstern, and Strigl.

The following section examines Hayek's retrospective judgements of the historical approach. He drew a sharp dividing line between Austrians like Menger, Mises, and himself and Germans like Schmoller or Brentano.⁹ But Hayek was oblivious to the fact that Menger and Schmoller, despite their evident differences, had shared a common ground to a remarkable extent. Hayek ignored his own assertion that the historian of ideas should focus on «the views on which the opposing schools agree», since «the general intellectual atmosphere of the time» is always determined by these views, which constitute the «common and unquestioningly accepted foundations on which all discussion proceeds» (Hayek 1979a [1952], 367-368). Once the boundaries between schools are relaxed, it becomes possible to view Hayek's thought through the lenses of a series of questions

8. Two early highlights are Böhm-Bawerk's 1886-7 article «Grundzüge der Theorie der wirtschaftlichen Güterwertes» and Menger's 1888 «Zur Theorie des Kapitals». At the time of these publications, the editor was Johannes Conrad. For the controversy on value raging in the same journal, and triggered by Böhm-Bawerk's article, see HOWEY 1960, 140, 156 ff. and KURZ 1995, 16 ff.

9. Hayek's dismissive attitude may have been influenced by Mises, who thought that «there were no economists in Germany»: HAYEK 1983, 186. See also Hayek's portraits of Mises collected in HAYEK 1992a.

which especially historical economists posited and discussed. Obviously enough, the goal of this article is not to cast doubt on Hayek's membership of the Austrian school but to widen the background of his thought, with the aim of contributing to a richer appraisal of it.

2. HAYEK ON HISTORICAL POLITICAL ECONOMY

According to Hayek, historical economists made up a «school» aiming to replace theory with description. This interpretation recurs in his writings since «The Trend of Economic Thinking» (1933). Here Hayek first established a link between «the famous Historical School in Economics» and reform, namely, «emotional revolt» and «social enthusiasm». The historical method «was constitutionally unable to refute even the wildest of Utopias» since it considered any problem as unique and discrete. Hayek recognized that in the twentieth century the theoretical approach had gained the upper hand, but the historical school was still of «tremendous» importance because of its alliance with popular feelings of «impatience». As a consequence, «short-sighted State action» was viewed by many as the cure for all social evils (Hayek 1933, 21-24).

In contrast, theoretical economics discovers the interdependence and coordination of phenomena. Acknowledging the existence of «spontaneous institutions» leads to a condemnation of the «quack remedies» recommended by historical economists. In Hayek's view, the difference between piecemeal reformers like the historical economists and the socialist planners is one of degree: both disregard the «coherence of economic phenomena» and for this reason invoke state action. The former's distrust of deductive analysis was ultimately motivated by their rejection of the practical conclusions to which classical economics led (Hayek 1933, 26-27, 31 ff.; 1934, vii; 1954, 212; 1973, 272).

There follows the great importance of Menger's clash with Schmoller. Far from being a waste of energy (Schumpeter 1986 [1954], 814), the *Methodenstreit* was a crucial battle for the establishment of theoretical economics as the knowledge base of policy. As an act of self-defense against the «hostile attitude» and «exclusive» pretences of Schmoller's school, the *Untersuchungen* represented a most effective development of the *Grundsätze*. Schmoller's reply was «more than usually offensive» (Hayek 1934, XIX-XXIII).

In the introduction to *Collectivist Economic Planning*, Hayek acknowledges Weber's contribution to the debate about rational decisions under socialism (Hayek 1935, 143-144).¹⁰ Hayek's text is remark-

10. According to Hutchison, the Germans Schäffle, Brentano, and Nasse anticipated in the 1870s the liberal critique of socialist economics: HUTCHISON 1953, 293-298.

able for two reasons. First, it is argued that Marxism has its origins in the historical school; second, a critique of the historico-empirical approach is foreshadowed. Marx endorsed the school's central view that economic phenomena are brought about by «a special historical development»; as a consequence, Hayek contends, all forms of socialism share an «antitheoretical» perspective (Hayek 1935, 127-128). The historical school's error was to apply the method of natural sciences to the social realm, in which experiment is impossible and phenomena are too complex to be directly observable. Therefore the social scientist cannot make «inductive generalizations», and the «facts» on which his or her research is based are «part of common experience, part of the stuff of our thinking». The adoption of the method of natural sciences led historical economists to conclude that society was not ruled by general laws. More precisely, historical economists held that only man-made laws existed (Hayek 1935, 125-127).

Hayek's later writings confirmed this interpretation of the historical school's method. As is well known, Hayek devised his own methodological conception as the antithesis of that of natural sciences. As far as historical knowledge is concerned, he makes it clear that historical facts are inherently different from the facts studied by natural sciences. Historical facts are not given to observation but amount to mental reconstructions, which we arrange into a «model» in the belief that historical actors used the same categories of thought we do. «Social theory», Hayek wrote, is «logically prior to history», and cannot be falsified by reference to «facts» (Hayek 1942, 70-73; 1979a [1952], esp. 119-124). He takes issue with the historians' pretence to discover laws of development of «wholes» like society or the national economy. Granted that these wholes are in fact models, they «can never possess any properties which we have not given to them or which do not derive deductively from the assumptions on which we have built them» (Hayek 1942, 73-74; 1979a [1952], esp. 128-131).

If Menger is the hero, Schmoller is one of the targets of *The Counter-Revolution of Science*.¹¹ Here Hayek addresses a major theme in the historical economists' polemic: the historical relativity of economic theory. Contrary to the view of a Schmoller or a Ashley, «a price in the twelfth century or a monopoly in the Egypt of 400 B.C.» can be explained in the terms of modern economics. Although place and time matter, «it is solely our capacity to recognize the familiar elements from which the unique situation is made up which enables us to attach any meaning to the phenomena».¹² Historicists believe

11. The bulk of the volume was first published in *Economica* in 1941-1944.

12. For an application of this tenet to monetary history, see HAYEK 1962.

that the human mind itself is subject to change, as if mind was «an object which we observe as we observe physical facts». But past actions and ideas are intelligible to historians only because they share the same categories of thought with actors, and therefore «the possibility of recognizing mind is limited to what is similar to our own mind» (Hayek 1979a [1952], 131-139). In *The Counter-Revolution of Science*, historical economists share the responsibility for laying the basis for socialism with other intellectual traditions.¹³ Among historical economists, Sombart, who adhered first to socialism and then to Nazism, is Hayek's *bête noire*.

Not surprisingly, as time went by Hayek's references to historical economists became rare. That is to say that they do not figure as major examples of «historicists», «constructivists», or «rationalists» in texts like «Individualism: True and False» and «Kinds of Rationalism». Hayek's sequences of mistaken and dangerous writers begin with Descartes and end with Keynes, passing through Rousseau, Hegel, and Marx (Hayek 1945, 4, 9-10; 1964, 84-85, 88-91, 93-94). But in *The Road to Serfdom*, a work in which Hayek's denunciation of German culture is at its peak, Schmoller and Sombart are listed among the Germans who put forward «the ideas destined to govern the world in the twentieth century» (Hayek 1962b [1944], 16, 141).

In the 1960s and 1970s Hayek recounted the story of the Austrian school in various occasional writings and memoirs. At a time in which Hayek was bent on discussing the institutional framework of liberal societies, the historical school's task was no longer said to be mere description but a «theoretical explanation of social institutions», in the attempt to arrive eventually at «the laws of development of social wholes». Menger's «compositive method» (that is Schumpeter's methodological individualism) was meant to oppose this use of history (Hayek 1968, 127). With «exact» economics almost completely excluded from German universities, the *Methodenstreit* was a «natural» and «urgent» response in Menger's view, Hayek comments (Hayek 1968a, 50; 1973, 280).

In conclusion, it can be safely argued that the challenge of historical political economy played an important role in the shaping of Hayek's thought. Needless to say, Menger's mediation was essential. Thanks to the *Untersuchungen*, Schmoller's standpoint was more relevant to Hayek than, say, Comte's or Marx's; as a result, in developing his own methodological stance Hayek kept in mind the historical economists' combination of an erroneous method with dangerous

13. Saint-Simon, Comte, and Hegel are Hayek's chief targets.

policy views. Stressing this combination had been a characteristic of Menger's interpretation of historical political economy.¹⁴ Hayek's critical appraisal of the historical school provided him with a template which he later used to group together a much larger number of writers under labels like «historicism» or «constructivism». In 1982, in drafting an essay on the Austrian school for *The New Palgrave*, Hayek refers to the Austrians' clash with Keynesian macroeconomists in the following terms: «for the second time», the Austrian school became «involved in a sort of *Methodenstreit*, in which its opponents claimed to be more scientific because their findings were more empirical; that is, more directly based on observation and measurements (at that time, however, more statistical than historical)» (Hayek 1968a, 55). In this case, too, the methodological dispute had momentous policy implications.

3. HAYEK BETWEEN MENGER AND THE HISTORICAL ECONOMISTS

Once the *Methodenstreit* is played down, it is possible to broaden the range of influences affecting Hayek. That is not to say that Schmoller or Brentano influenced Hayek directly, but that the historical context of his thought is to be found in a peculiar environment, in which Austrian and German political economies interacted. This section will substantiate this interpretation, whose by-product is a fresh image of historical political economy. If assessed as a relevant part of a broad Austro-German connection, historical political economy forsakes its traditional characterization as a dead end. Section 4 will reassess Hayek's framework in the light of his stance on the issues shared with historical economists.

3.1. Realism and complexity

To Hayek, Menger's *Untersuchungen* features two fundamental achievements: methodological individualism and the theory of institutions as unintended consequences. But, Hayek continues, «whether the merits of [Menger's] positive exposition of the nature of theoretical analysis can be rated as high is, perhaps, not quite certain» (Hayek 1934, xx). In a later text, Hayek writes that «in detail [Menger's] methodological views were not fully accepted even within his own school» (Hayek 1968a, 50). It is likely that Hayek disagreed with Menger's identification of a «realistic-empirical orientation» and an «exact orientation» as two forms of theoretical research, on the

14. On the politics of historical economists, see Menger 1963 [1883], esp. 91-94, 177.

grounds that the former was impracticable.¹⁵ Furthermore, Menger's quasi-Aristotelian contention that exact economics should deal with the 'nature' of phenomena was not taken up by Hayek (Menger 1963 [1883], 198).

In his early writings Hayek strove after realism within the boundaries set by equilibrium economics. In 1925, he cited Mitchell's «empirically established regularities» in support of his (and Mises's) theory of cycles (Hayek 1925, 7-11).¹⁶ Hayek's effort to frame an intertemporal equilibrium model rests on the view that «the customary abstraction from time does a degree of violence to the actual state of affairs», namely, timeless assumptions do not correspond to «the facts» (Hayek 1928, 71-72; 1933a, 135-141). In 1929 his opinion was that economic theory was a deductive science aiming to explain cycle phenomena «with all their peculiarities which we observe in the actual cycles» (Hayek 1933b [1929], 33). «The only test» of the usefulness of an economic model is whether it «reproduces movements of the type which we observe in the modern world» (Hayek 1933, 25). «Economics and Knowledge» is presented as a manifesto against the «tautologies» of which formal equilibrium analysis would consist; Hayek's focus on the transmission and dissemination of information was meant to generate a more realistic depiction of the economy (Hayek 1936, 33-34, 54-56). In «The Meaning of Competition» Hayek's critique of the «Pure Logic of Choice» in the name of «the problems of real life» is most radically posited (Hayek 1946, esp. 92, 99-102).

Menger did not make realism a characteristic of the exact orientation of theoretical research. Like Mill, Menger did not pretend that exact economic laws corresponded to the «full empirical reality» (Menger 1963 [1883], e.g. 61-62, 69-73). Actually, he went as far as to argue that «the development of *real* phenomena ... exerts no influence on the way in which exact research undertakes to solve the theoretical problem» (Menger 1963 [1883], 112). This view was based on the mentioned distinction between two «orientations» of theoretical research, a distinction that Hayek did not subscribe to. That is not to say that Hayek attempted to grasp the «full empirical reality» as historical economists had done (Grimmer-Solem and Romani 1999); but in the 1920s and 1930s he had the ambition to construct an economics of general laws which could explain specific facts, like current interest rates or price movements in the United States (e.g. Hayek 1928, 104,

15. Hayek denied «the possibility of a theoretical science of history» 1979a [1952]: 111.

16. But on the limited value of statistical regularities for trade cycle theory, see e.g. HAYEK 1933 [1929], 28-38. On Mitchell, see esp. HAYEK 1925, 5-7 ff., 20-21 and n. 2, 7, 27; 1948; 1963, 35-37).

113-114, n. 1). His mature epistemology would rule out any ambition of this kind.

Hayek's concern with the realism of the model was associated with an acute perception of the complexity of economic and social phenomena. This perception is a major thread running through his *œuvre* and culminates in the essay «The Theory of Complex Phenomena» (Hayek 1961). For the historical economists the recognition of social complexity was paramount, as for example Schmoller and Cliffe Leslie demonstrate. If the former's emphasis on the complicated nature of social phenomena is well known (Caldwell 2004, 52), the latter's position is worth sketching. The Irish Cliffe Leslie believed that economic life had moved from simplicity to complexity – that is «from unbroken custom to change» – as a consequence of a worldwide division of labour, trade, and credit. The murkiness, asymmetry, and constant flux of the real world should in the first instance be fully acknowledged, to be dealt with thereafter through induction, statistics, and comprehensive and flexible theories (Cliffe Leslie 1879). It was «the infinite diversity, and change, and incessant movement» of modern economies that had called for an inductive method (Cliffe Leslie 1881, 253).

Hayek's complexity was different from Cliffe Leslie's, because the Austrian economist acknowledged it from a theoretical viewpoint. Complexity emerges from general equilibrium analysis: its sources are time, expectations, «numberless individual choices», and informational asymmetry. After «Economics and Knowledge», Hayek added «local conditions» and «special circumstances», «change», and «social evolution». Far from leading to a theoretical vacuum, complexity is recognised within a framework which explains it and holds in check its disruptive potential (so to speak). As Hayek developed his social science, the framework of general equilibrium was replaced with that of spontaneous order, which is more versatile and comprehensive but also fuzzier.

A view of society as a complicated, evolutionary spontaneous order seems to require the inductive techniques recommended by Cliffe Leslie to be apprehended in detail. But to Hayek cognition of complex facts is beyond the capacity of social science. Whereas the historical economists attempted to cover as wide a social area as possible through extensive recourse to fact-collecting techniques, Hayek, following in Mill and Neville Keynes's footsteps, maintains that the more complex the problem at hand, the more necessary is the use of theoretical knowledge (Hayek 1961, 34-36). Induction is not excluded but theories come first: observation takes place «only

after our senses have discerned some recurring pattern or order in the events» (Hayek 1961, 22-24). However, despite their priority, theories cannot predict and control complex phenomena; what they can predict is only the recurrence of abstract patterns. Hence, granted that «we are ... unable to substitute particular values for the variables», economic theories are not «tools» but ultimate achievements (Hayek 1961, 28). A similarity between Hayek and the historical economists is to be found in the opposition to «the prejudice that in order to be scientific one must produce laws». Simple cause-effect relations, in fact, do not apply to complex phenomena (Hayek 1961, 40-42).

Hayek's reliance on theory to tackle complexity might seem to clash with the position taken in «Economics and Knowledge». Here he contended that, first, complex economic phenomena have a common origin in the ways in which knowledge changes and spreads, and, second, that the statements about how knowledge is acquired and transmitted are the single empirical (falsifiable) elements of economic theory (Hayek 1936, 33-34, 44-46 ff.). In Hayek's reconstruction, markets are processes in which each individual's choices are shaped by the availability and accumulation of knowledge (Zappia 1996). The falsifiability of knowledge related statements, however, does not lead Hayek to embark on a study of them: «I very much doubt whether such investigation would teach us anything new». Pointing to the aspect of economic systems which can be empirically ascertained serves only to specify that a tendency towards equilibrium «in the real world» cannot be postulated if «division of knowledge» is not given full consideration (Hayek 1936, 44-46, 50, 54-56). «Economics and Knowledge» is possibly the single text in which Hayek recognised an empirical realm, to be investigated by means of inductive techniques. But this identification had no effects because, as he clarified in subsequent decades, social science has nothing to say on specific and concrete phenomena.

The bedrock of Hayek's approach to complexity lies in the view that knowledge of things and facts cannot be direct but depends on mental constructions. This view, which rests on Hayek's psychology research carried out as early as the 1920s, is fully developed in *The Sensory Order* (1952). As Hayek put it, «all we know about the world is of the nature of theories» (quoted in De Vecchi 2003, 151; see also Hayek 1979a [1952], 82-85). Perception of the external world that seems «concrete» and «primary» is the product of «a superimposition of many 'classifications' of the events perceived according to their significance in many respects» (Hayek 1968c, 36). Hayek's science is radically

unempirical in this Kantian sense (Gray 1982); he spoke of the «primacy of the abstract» (Hayek 1968c). It follows that the social sciences «constitute» the wholes they study (Hayek 1942, 72-73 ff.). Another consequence is the correspondence between the human mind, which functions through general dispositions and patterns amounting to a system of «abstract rules», and the pattern predictions supplied by social science (Hayek 1968c, 39-44).

Characteristically, Hayek brings into social and political science a notion of society deriving from economic equilibrium models. He postulates complexity but he does not either analyse or describe it in any detail. Not only is Hayek's market society bereft of specific historical or geographical traits, but the different roles, occupations, and attitudes of agents are not taken into account. Whereas historical economists isolated particular questions and focused on their historical development, Hayek's subject matter is society as an abstract whole.¹⁷ At the same time, it is safe to say that he viewed the complexity of market society with approval, namely, as a reflection of political liberty and freedom of choice. To Hayek, who lived through the twentieth-century clash of ideologies, market society was not a subject of dispassionate study but partook of the nature of a political and moral value. The complicated but highly efficient interactions made possible by markets were the hallmark of liberal society.

3. 2. *History and the Ricardian vice*

It would be difficult to imagine a more complete antithesis of the historical economists' empiricism and situated approach. However, Hayek too wrote history, and, not unlike the Schmollers, Helds, or Levasseurs, he turned history into a powerful tool of both criticism and advocacy. In accordance with his model of knowledge, Hayek wrote a history of economic and social ideas rather than of facts and events. From the very beginning of his battle against constructivism he put intellectual history to use; the bulk of *The Counter-Revolution of Science*, for example, consists in a reconstruction of «scientist» and «collectivist» thinking from Turgot to Comte and Marx (also Hayek 1933, 21-28; 1935, 124-129). Hayek sought to ground his own interpretation of social science on an idiosyncratic reading of two centuries of ideas, which he arranged into an ancestry of advocates of spontaneous order, on the one hand, and one of constructivists, on the other (esp. Hayek 1945, 1964). In a sense, the passages by Smith, Hegel,

17. On Hayek's spontaneous order as «an ideal type of social organization», see GALEOTTI 1987. On the shortcomings of Hayek's formal structure of law, see HAMOWY 1978, esp. 295-296.

or Comte that Hayek cites constitute 'empirical' evidence in the same way as Schmoller's archival documents on German handicrafts do.

Hayek's turning to history was a decisive move, which casts light on his approach to social science. He thought that the course of history was shaped by ideas, and, in particular, that the struggle between socialism and liberalism was fought by philosophers, economists, and their popularizers. In fact, although the conflicts between economic interests «raise a problem», the socialist solution is the offshoot of scientific philosophy, namely of «sheer intellectual error». Hayek doubts «whether it is possible to overestimate the influence which ideas have in the long run» (Hayek 1979a [1952], 179-180, 399-400; also 1973a, 67-71). He believed that historical knowledge had an intimate link with value judgements and hence policy (Hayek 1944, 1954). «Past experience», he wrote, «is the foundation on which our beliefs about the desirability of different policies and institutions are mainly based» (Hayek 1954, 201). On these premises it is not surprising that Hayek, who aimed to take an active part in the contemporary ideological struggle, turned historian.

To set Hayek's position in the proper context, it is pertinent to sketch the historical economists' vision of the relationship between science and practice. What was in question in the European-wide reaction to Ricardianism in the second half of the nineteenth century was what Schumpeter termed the «Ricardian vice», that is the willingness to deduce solutions to practical problems from simplistic assumptions and tautological reasoning. But the universal criticism of the Ricardian vice entailed two opposite conclusions. On the one hand, there was the British-led revision of the previous pretence of dictating policies directly in the light of science.¹⁸ Outside Britain, a similar approach is recognizable in Menger (Streissler 1988, 199-200). The advent of marginalist economics coincided with the emergence of more cautious approaches to the applicability of theories. On the other hand, equipped with a distinct agenda besides a different tool box, historical economists did not give up the mantle of science when advising the prince. In their view Ricardo's methodological flaw was simply the limited basis of facts on which his policy conclusions rested. Once history and statistics had supplied the required observa-

18. Marshall's position of 1885 about the theoretical organon is well known; Sidgwick and Neville Keynes went to great pains to distinguish between the descriptive and the normative sides; and Jevons and Foxwell regarded mathematics as the instrument which had made impossible «to mistake the limits of theory and practice». See MARSHALL 1925 [1885]; SIDGWICK 1887 [1883], 13-27; KEYNES 1904 [1890], 34-35 ff.); on Jevons's method, see SCHABAS 1990, 80-97; FOXWELL 1888: 88. For comments, see WINCH 1972, 42 ff., and COLLINI and WINCH 1983.

tions, the historical economist felt himself entitled to give politicians scientific advice. Schmoller aptly coined the expression *wissenschaftlicher Vermittler*, scientific mediator, to define his role (Roversi 1984, 51). Historical political economy was a practical, action-oriented model of knowledge; the necessity to isolate research objects meant focusing on the causal dynamics of specific cases relevant to policy (Grimmer-Solem and Romani 1999).

Hayek's early writings on cycle theory show a cautious attitude towards policy (e.g. Hayek 1925, 22; 1928, 113, n. 1). In the 1930s caution tended to fade, as a consequence of the recognition that the contemporary mismanagement of monetary policy could be attributed to «the influence of new ideas ... propagated by the academic fraternity». Then Hayek's «first duty» was to examine the beliefs «which dominate the actions of statesmen and politicians and, therefore, probably exert a stronger influence on the development of the world than the most sensational current events» (Hayek 1932, 118; 1936a, 163, 178-179). «The Fate of the Gold Standard», for example, is an attack on Keynes and other price stabilization theorists from the standpoint of monetary orthodoxy (Hayek 1932). From the 1940s onwards Hayek repeatedly gave up scientific detachment; *The Road to Serfdom* was a watershed in this respect. «This is a political book» whose argument depends on «certain ultimate values», he wrote in the preface (Hayek 1962b [1944], v). *The Road to Serfdom*, which is a criticism of the views of contemporary «amateurs and cranks» who were plunging Britain into socialism, tacitly popularizes the ideas contained in «Economics and Knowledge» and the writings on socialist planning (Hayek 1962b [1944], e.g. 27, 42-45, 54-75).

Hayek made it clear that the recognition of a spontaneous order in society did not entail acquiescence to the existing arrangements. «Insofar as we learn to understand the spontaneous forces», he wrote, «we may hope to use them and modify their operations by proper adjustment of the institutions which form part of the larger process» (Hayek 1979a [1952], 149). On various occasions after 1945 Hayek intervened in policy debates and framed proposals meant to be solutions to specific problems. For instance, he devised a scheme to defer payment of part of wages, with the aim of restoring «the market mechanism for determining the distribution of workers among industries» (Hayek 1968b, 20-23). Although he set limits to the predictive power of social science, its goal was nevertheless «to make our action more effective» (Hayek 1955, 19). Hayek too was tainted with the constructivist vice (Kukathas 1990, 208-215).

3.3. Institutions

Both Hayek and the historical economists emphasised the role of institutions. Outlining «the most appropriate permanent framework which will secure the smoothest and most efficient working of competition» was an essential concern of Hayek (Hayek 1935, 135). The role of contracts and institutions had been a major bone of contention in the decades witnessing the rise of historical political economy. The effectiveness of contracts as social bonds, maintained by liberal individualists like Maine and Spencer, was downplayed by a host of authors who were in favour of an extension of social institutions. Historical economists were prominent among them. «All struggles within society are struggles for institutions», wrote Schmoller (Schmoller 1894 [1881], 732); as Toynbee put it, «while the modern historical school of economists appear to be only exploring the monuments of the past, they are really shaking the foundations of many of our institutions in the present» (Toynbee 1881-1882, 35). History served to stress, and document, the fact that any economy is a network of norms, laws, and institutions. Not only Schmoller, but even a liberal of the old school like Levasseur pointed out that contemporary economic freedom was nothing but «un système d'institutions» (Levasseur 1876, 333). In all ages and places, individual self-interest has been moulded by practical collective ethics (*Sitten, moeurs*) and its juridical expressions. Historical economists pointed out that wages were determined by social agreement and institutions, so that social policy issues must be viewed within the framework of «the life and movement of whole industries and classes», relying on studies which were «no longer individualist and psychological, but collectivist and institutional» (Ashley 1893, 121; see Grimmer-Solem and Romani 1999).

In agreement with historical economists, Menger believed that the origin and workings of institutions were the most important topics of political economy (Menger 1963 [1883], 146-147; see also Weber 1975 [1903-6], 80). In the *Untersuchungen*, the long chapter two of book three, where it is argued that institutions are the product of unintentional individual actions, was meant to beat the Germans on their own ground. Menger depicted a contrast between the «collectivism» of the Germans – that is their holistic approach – and his own individualist perspective. He took great care to refute the claim that for all scientific purposes «national economy» could ever be treated as «a special unit», different from «the singular economies in the nation». The nation could be a proper economic subject only in a «socialist state» (Menger 1963 [1883], 90-94, 193-196, 212-213).

Hayek's interest in institutions comes from Menger, whose *Untersuchungen* he never ceased praising as the source of his concept of spontaneous order. As Hayek once wrote, the «younger» historical school had aimed at a «theoretical explanation of social institutions», and Menger had successfully repelled their attack (Hayek 1968, 127). Hayek argued as early as 1933 that the spontaneous interplay of individuals produces unintended coordination and therefore society is an «organism», in which every part performs «a necessary function for the continuance of the whole» (Hayek 1933, 27). Rather surprisingly, his later brand of organicism adopts a holistic approach to institutions through the explanation of social rules in terms of «group advantage» (Vanberg 1986). The important thing to note, however, is that Hayek's work on institutions is to be placed within a tradition of economic thought initiated by Germans like Stein, Roscher, and Schäffle, a tradition which Menger took up in both the *Grundsätze* and the *Untersuchungen* (Pearson 1997, on Hayek, 166-168; Caldwell 2004, 78). In view of the fact that Schäffle was Menger's immediate predecessor in the Vienna chair, it is significant that the former's treatment of institutions has some similarities with the latter's (Schäffle 1875-1878, esp. bk. vi, ch. 1; 1876 [1867], par. 191-194, 196, 203; see Hutter 1993-1994, 182-183). The difference between the Austro-German milieu and that of, say, Britain or Italy was that institutions were not only a suitable economic subject but the central one; Hayek carried over this approach into the twentieth century, in the company of scholars as diverse as Spiethoff, Sombart, Wieser, and Eucken. An exclusive focus on the differences between the methodological individualism of Menger's school and the holism of historical economists obscures the common broadening of the economic subject matter, as well as certain shared assumptions and conclusions (on which see Pearson 1997).

With reference to institutions, a detailed comparison between Hayek and the historical economists is too vast a task to be carried out here. It is only possible to mention some major themes. As is well known, Hayek opposed the concept of spontaneous order to the institutions «by design» advocated by constructivists (e.g. Hayek 1945). Now, many historical economists were aware of non-intentional achievements – for example liberals like Levasseur, Cliffe Leslie, Thorold Rogers, and Brentano (Grimmer-Solem and Romani 1998). But even an admirer of the Prussian state like Schmoller viewed civilization as the product of «collective psychical forces» and mores (*Sitten*); institutions served to crystallize the ideas and aspirations of individuals and groups in an interactive dynamic (Schmoller 1874-1875,

esp. ch. 3; 1894 [1881]). Social reform was the process by which a gap between new collective feelings about justice and institutions was bridged. Collective psychology was «the key» to national economy, although Schmoller never stopped complaining about the lack of a satisfying inductive science of the characters of peoples and classes (Schmoller 1900-1904, e.g. i, 107). Schmoller was keen to differentiate himself from Roscher, who had advocated an impersonal, metaphysical, and «objective» *Volksgeist*. To Schmoller, the national spirit amounted to a series of ever-changing «spheres of consciousness» (*Bewusstseinskreise*) which impinged on each citizen in different degrees and tended to «a certain unity» – for example, the spheres of family life, local community, religion, and economic activity. Although an exchange economy seems to require self-interest alone, in fact it rests on a set of agreed beliefs and rules of which people are «more or less aware» (Schmoller 1900-1904, i, 15-20). In short, Schmoller's notion of institutions was much more 'spontaneous' than Hayek believed.¹⁹

To Menger individual actions laid at the root of institutions, whereas Schmoller emphasised collective attitudes and mores. But in replying to the *Untersuchungen* Schmoller argued that all social forms were eventually to be grounded on individual psychology; the real bone of contention, in his view, was that his understanding of psychology was broader than Menger's exclusive focus on «egoism». Self-interest is only a facet of individual behaviour, whose multifariousness is embedded in the cultural, institutional, and political milieux composing society (Schmoller 1883, 983-984; 1893, 280-284). Schmoller points to at least three mechanisms of socialization and evolution operating on the individual plane: the «acquisitive instinct» (*Erwerbstrieb*), Smith's sympathy, and Tarde's imitation (Schmoller 1900-1904, i, 9-10, 29-39); in Hayek's evolutionary framework, the process of selection takes place through imitation of the «rules» adopted by successful groups (e.g. Hayek 1967a; 1970, 7, 9-10) – should one infer that Schmoller was more 'Austrian' than Hayek?

It is already clear that historical economists cannot be added to Hayek's list of «false individualists» who disregard «voluntary association». This aspect of Hayek's polemic, which he traced back to Tocqueville's reaction against the «atomism» brought about by the

19. See e.g. the following passage: «Nearly all positive law, therefore, and especially written law, which the thinking mind generates by the machinery of legislation, which has not as customary law been derived from use, is inflexible, feeble, confined to outward, clearly visible marks; it cannot regard individualities and their natures, it deals with rough averages»: SCHMOLLER 1894 [1881], 726.

French Revolution, was in fact a pillar of German nineteenth-century culture, and, in the economic field, of historical political economy. But with a difference: Hayek praises the anti-statist function of families, voluntary associations, and small communities, whereas historical economists did not view these social units in isolation from the state (Hayek 1945, 16, 22-23).

True liberalism, Hayek contends, is «reverent of tradition» (Hayek 1966, 161). As Schmoller put it, «the sacred traditions of the past fill our mind with awe», so that «institutions must never disappear in form and substance» and «nations can never create anything wholly new, but must always build on what exists» (Schmoller 1894 [1881], 731). Granted that in Hayek's perspective human mind consists of abstract rules of conduct resulting from cultural evolution, the individual necessarily conforms to traditions and conventions; if he or she fails to do so, the social order is in jeopardy. Hayek, like Schmoller, can hardly be labelled an individualistic thinker (Kukathas 1990, 80-83; Carabelli and De Vecchi 1999, 282-284; 2001, 239-244).

3. 4. *The place of values in social science*

Hayek's treatment of value judgements reflects his changing attitude towards policy. In assessing the potentialities of socialist economies, Hayek affirms that his discussion concerns the means and not the ends of socialism, because «on the validity of the ultimate ends science has nothing to say» (Hayek 1935, 130). The influence of Weber («the great German sociologist») and Robbins is apparent. The war years witnessed a change of mind, as first illustrated by Hayek's value laden statement that socialism (unlike the liberal social order but like Nazism) imposes a single scale of values (Hayek 1940, 206-207; 1962b [1944], 42-45). He now admits that it is impossible for economists not to make value judgements, and that «speaking frankly on political questions» may be necessary at times (Hayek 1944a, 45). As regards historians, their form of knowledge is inextricably linked to values and morals: «I cannot see that the most perfect respect for truth is in any way incompatible with the application of very rigorous moral standards in our judgements of historical events» – a statement that Schmoller would surely have agreed with (Hayek 1944, 141; also 1954, 201-202). On various occasions after 1945 Hayek made two related statements: that «the existing factual order of society exists only because people accept certain values» (Hayek 1970, 21), and that moral values can exist only in a liberal society (Hayek 1961a, 229-230; 1970, 12-13). He came to regard the view that «science has nothing to do with values» as a «false belief», and not only because science can

effectively verify their compatibility or incompatibility: as the Italian Einaudi suggested, in the future the economist would probably pass judgement on ends as well as means (Hayek 1970, 20-21 and n. 26; see Faucci 1986, 294-302).

It would be tempting to conclude that Hayek came full circle in his personal *Werturteilstreit*. He seems to shift from Weber's stance to Schmoller's. But a difference between Schmoller and Hayek lies in Schmoller's adherence to a view of civilization as progress characterized by the maturation of an ever higher set of values; the task of the historical and social sciences was to demonstrate that history was a meaningful process (Betz 1995, 96-101). In Hayek's view, «a single scale of values» is a defining trait of socialism, whereas the concept of spontaneous order excludes by its nature any particular «purpose» or «concrete end». It serves «divergent and even conflicting individual purposes» (Hayek 1940, 206-207; 1962a, 258-259; 1966, 163-165 ff.; 1968b, 14). That is to say that Hayek, like Schmoller, subscribed to certain moral and political values but, unlike Schmoller, he did not view values as embedded in the course of history. Another difference, which will be further explored below, is Hayek's enduring ambivalence towards Weber's stance on values in social science. On the one hand he holds that «Weber stated the essentials of this issue», but on the other he argues that the rise of totalitarian regimes has made an unbiased pursuit of the scientific enterprise dependent on political liberty (Hayek 1962a, 253-256), and hence if Weber had lived twenty years longer «he would probably have changed his emphasis a little». On the pages immediately following this assessment, Hayek typically contends that the view that distributive justice entails both «unfreedom of action» and «unfreedom of opinion» depends «only on scientific analysis and not on any value judgement» (Hayek 1962a, 254, 256-259; also 1976b, esp. 123; see Kirzner 1998). But this and other similar statements can hardly stand close examination once it is taken into account that many normative claims flow from his social theory (Kukathas 1990, 172-174, 197-201, 211-215).

From a Weberian standpoint, taking sides does not imperil the objectivity of the social scientist if his or her values are openly stated. The crux of the matter is not to mix values with science. In view of the above discussion, it is difficult to say whether or not Hayek fulfilled this pledge. Furthermore, although he did voice his liberal faith, it is problematic to claim optimality for spontaneous orders on purely scientific grounds, namely, without postulating a unified set of purposes (Streeten 1999). At any rate the questions raised by the German *Werturteilstreit* left a mark on Hayek's thought. Interestingly, Schmoller's

reply to Weber's denunciation conceded various points, and it was neither particularly holistic nor particularly deterministic in character. Schmoller maintains that value judgements have evolved from «value sensations» (*Wertgefühle*) – a category including pleasure and pain, approval and disapproval, and instinctual understanding – through life experiences and cultural development.²⁰ Moral values, he argued, amount to the «average rules» followed by the population and are a key force in society (Schmoller 1911, 493-494; also 1894 [1881]).²¹

4. HAYEK UNTER DEN LINDEN

An odd point for a liberal is discernible in Hayek's writings of the 1940s. This is the view that individuals must submit to «the anonymous and seemingly irrational forces of society» even if these appear to him or her «unintelligible and irrational» (Hayek 1945, 22, 24-25; 1962b [1944], 151-152; 1979a [1952], 162-163). Failure to submit paves the way for Nazism, socialism, or Keynesism. The German «cult of the distinct and different individuality» accounts for the rise of Hitler (Hayek 1945, 25-27); workers who resist «a lowering of their material position» after the war cause unemployment, poverty and eventually totalitarianism (Hayek 1962b [1944], 153-155); and the «rationalist» and permissive atmosphere in which Keynes lived is the reason for the *hubris* lying at the basis of the inflationary policies he recommended (Hayek 1964, 89-90). The wrong kind of rationalism leads to «the destruction of all moral values»; as Hayek also put it: «the only alternative to submission to the impersonal and seemingly irrational forces of the market is submission to an equally uncontrollable and therefore arbitrary power of other men» (Hayek 1962b [1944], 152). In turning the market into a 'compulsory' moral value, this view significantly narrows the gap with Schmoller's teleological perspective. As far as Hayek's writings of the 1940s are concerned, history is shaped by 'objective' values imposed on individuals, and this in spite of his eulogy of pluralism and division of knowledge.

The point is that adherence to certain values remains obligatory

20. This evolution is in fact a progress: «Die Wertgefühle wie die Werturteile können irren; aber die Kulturentwicklung, die Arbeit aller Religionen und aller Wissenschaften, aller Sitte und alles Rechts hat die Wertgefühle und Werturteile auf allen Lebensgebieten nach und nach immer mehr geläutert, zu immer richtigeren Wegweisern des Lebens-, des Gesellschaftsförderlichen gemacht; sie haben die Triebe und Lustgefühle in ihrem Zusammenwirken zu immer größerer Harmonie, zu immer besserer systematischer Ueber – und Unterordnung gebracht»: SCHMOLLER 1911, 493-494.

21. SCHMOLLER 1894 [1881] is regarded by Hayek as «a pretentious statement of the characteristic muddle of the do-gooder foreshadowing some unpleasant later developments»: HAYEK 1976, 177, n. 8.

even in Hayek's later perspective, focusing on «rules» in conjunction with an evolutionary framework. As already indicated, he sets limits to individual choices through the concept of «tradition». Man, he argues, «is often served better by custom than understanding» (Hayek 1979, 157; see Carabelli and De Vecchi 1999, 283); as an interpreter put it, Hayek «has emphasized not the role of reason in modifying tradition but the role of tradition in creating reason», namely, «we are severely limited in our capacity to criticize our traditions» (Kukathas 1990, 81, 176-180, 189-191). These are systems of abstract rules of conduct which have spontaneously grown, are rarely apprehended consciously, and «make the behaviour of other people predictable in a high degree»; they gradually evolve and improve (Hayek 1945, 23; 1967a). Rules «of law, of morals, of custom and so on» are sometimes called «values» (e.g. Hayek 1970, 7, 11, 13, 19, 20-22; 1973a, 110-111 ff.), and the two terms are said to be synonymous for all practical purposes. Given that abstract rules do not promote particular ends, these rules either «serve» or «operate as» ultimate values (Hayek 1976, 14-17).

Hayek's primacy of the abstract should not be confined to his views on knowledge and method. He attempted to work a miracle: to construct a science of market *society* which does without its actual dynamics and its actual forces. Accordingly, he envisaged a purely 'formal' cultural framework, that is he denied that the rules governing social interaction have positive contents. As shown above, abstract rules are the very stuff of human minds, with the effect that Hayek's theory of society matches neatly his theory of knowledge. In this connection, a crucial element of social tradition like the «sense of justice» an individual possesses is one of the «highly abstract rules» of which mind consists and of which we are not aware (Hayek 1968c, 46). In other words, culture and reason have developed concurrently (Hayek 1979, 155). Hayek believed – correctly, in view of his theory of knowledge – that analysing society in some detail was a step towards constructivism.

In the perspective of the primacy of the abstract, the advantage of rules over values in the Weberian, usual sense is twofold. First, while the latter are affirmative and specific, the former consist mostly of prohibitions and thereby do not presuppose agreement on ends (Hayek 1967a, 77; 1970, 8; 1976, 22-23, 31-44, 56-59; 1976a; 1979, 130-133 ff.). Since cultural evolution can be expected systematically to select for appropriate rules, somehow rules take on a morally neutral characterization. Second, each set of rules making up a tradition is universally applied and therefore the possibility of collision between rules

or argument over them is excluded by definition. This is in stark contrast with 'Weberian' values, which are inevitably partial and accordingly may lead to conflict. A major problem coming up as a consequence of Hayek's abstract approach is how to recognise the genuine rules composing tradition.²²

Hayek writes that he takes for granted two value judgements: personal liberty and personal responsibility. «It can be assumed that such values would be shared by all persons with whom one cared to discuss [the problems of socialism]» (Hayek 1976b, 123). He continues by arguing that, apart from these basic values, he demonstrates the impossibility of socialism by plain economic reasoning, which is politically neutral and objective. Hayek's 1935 critique of Pareto and Barone puts in perspective the scientificity of his economics. The two Italians' argument (later echoed by Schumpeter) was that, by virtue of the technical nature of economics, it was possible to construct a model of a socialist economy. Hayek contested that conclusion on the grounds that a central authority could not solve the «economic problem» of choosing between alternative employments of given resources. The point is that even his criticism allegedly followed from purely scientific, cause-effect thinking; evidently, Hayek's understanding of the neutrality of economics was different from Barone's or Schumpeter's. This was because Hayek inextricably linked economics to the achievements of the market: «the decisive step in the progress of economics was taken when economists began to ask what exactly were the circumstances which made individuals behave towards goods in a particular way» (Hayek 1935, 136; see Lavoie 1985). Agents in Hayek's 'institutionalist' economics are not Robinson Crusoes but are socialized by the market.

Forty years later, Hayek points to economics as the science which describes the market order as the template of society. Market order connects people (it «comprehends nearly all mankind»), it benefits all, and «even the degree to which we can participate in the aesthetic or moral strivings of men in other parts of the world we owe to the economic nexus». Hence the economist is entitled «to insist that conduciveness to that order be accepted as a standard by which all particular institutions are judged» (Hayek 1976, 113). Clearly enough, Hayek's concept of social and political order has its origin in the pattern of mutual adjustment of many individual economies in a market

22. The task is assigned to a legislative assembly elected by age groups, «local clubs of contemporaries», and a constitutional court: esp. HAYEK 1979. But it is apparent that scope for disagreement would remain significant. Hayek's theory of societal evolution has been the object of criticism from various quarters: see e.g. VINER 1961, VANBERG 1986, BARRY 1994, WITT 1994.

(Cubeddu 1993, 97-100, 201-202) – his stance is in the spirit of Mises's 1927 dictum that «Liberalism is applied Political Economy». As Hayek put it, «the interdependence or coherence of the parts of the Great Society is purely economic». The chief advantage of a socio-political order patterned on the market is that «it is merely means-connected», and therefore «it makes agreement on ends unnecessary and a reconciliation of divergent purposes possible» (Hayek 1976, 3-4, 109-111). The market is both the key to Hayek's elaboration of a formal model of society and the unqualified value which has the effect of rendering all other values immaterial.

It is arguable that Hayek, like Schmoller, feared social dissolution, which both economists regarded as a practical possibility in their lifetimes. For both authors the cause of decay was moral and cultural. Schmoller pointed to avarice and egoism, which he viewed as degenerative traits of the acquisitive instinct and a prelude to class rule (Schmoller 1900-1904, ii, 677-678). Hayek forcefully warned about the danger of constructivist reason attempting to interfere with the functioning of markets. Schmoller too denounced *hubris*, but with reference to classical economics as well as socialism: in putting forward «a complete and objective system of the present economy», both forms of knowledge «exaggerate ... our actual capability to know» (Schmoller 1897, 325). Hayek's *hubris* is of this kind: he conceived a grand theory integrating economics, psychology, politics, and history.

5. CONCLUDING REMARKS

The point of this article is not to suggest a direct influence of historical economists on Hayek, but one mediated by the geographical, linguistic, and cultural proximity of Austria and Germany. Looking at Hayek through German lenses has five advantages. First, it widens the historical context of his thought by questioning the supposed gulf between the Austrian and the German schools. Second, it shows that Hayek's interpretation of the «younger historical school» was severely biased. Third, establishing a link between the historical economists and a now revered author like Hayek may shed a new and favourable light on a group still viewed with disdain (Kukathas 1990, vii, 2-3; Peukert 2001, 71). Fourth, there emerges an interpretation of Hayek's thinking centred on value judgements. Fifth, placing Hayek alongside, say, Schmoller suggests a general consideration concerning Hayek's liberalism.

In brief, the primacy of the abstract leads to a rosy view of liberal society, but Schmoller's primacy of the concrete contradicts it.

The difference between the two writers eventually lies here, and is a substantial one. Hayek's rules, which are just in the sense of being applicable to all, support a view of society linked to a steadfast defense of liberty and responsibility – the overall picture seems powerful and plausible. But observation and statistical data told Schmoller a different story about liberal society. Banal as it may seem, Schmoller patiently investigated society as he found it, with its class structures, power relations, state policies, cultures, and value judgements. To the extent that research spotlighted specific inequalities and injustices, he recommended specific measures to tackle them. Needless to say, the two approaches are not incompatible in practice: contrary to Hayek's stance, the fair workings of *abstract* rules do not exclude, but often require, particular interferences and *ad hoc* measures.

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