

# Hayek Against the Planners

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*F. A. Hayek: Economics, Political Economy, and Social Philosophy*

By Peter Boettke

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Peter Boettke, university professor of economics and philosophy at George Mason University, is the author of this newly released volume in Palgrave Macmillan's Great Thinkers in Economics series. In it, Boettke is given the task of explicating not just the intellectual importance of the profound body of work produced by the Nobel laureate F. A. Hayek but also the context of that work. We are given an understanding of both the man himself and the times in which he was writing. More important, we learn why Hayek's example is relevant into the twenty-first century.

In addition to confronting outright Marxists, Hayek confronted the work of progressive liberals John Maynard Keynes and Paul Samuelson. Generations of undergraduates encountered in Samuelson's textbook *Economics* the claim that Soviet growth would surpass the United States' economy. In his 1980 edition, Samuelson claimed that "the Soviet economy is proof that, contrary to what skeptics had earlier believed, a socialist command economy can function and even thrive." This suggested to students—and thus future academics—that formalism, an overreliance on mathematical aggregation that necessarily led economists to disregard the qualitative data in economic analysis, was sufficient for understanding econom-

ics. This was the methodology that would allow the experts to craft an economic order that would give false hopes of engineering economic growth. It was Hayek who led the charge against formalism and the tendency toward scientism in economics, arguing that socialist planning was not possible and necessarily led to authoritarianism.

Events proved Hayek right. And while no one today is calling for a return to Mao's China or Stalin's USSR, today's academic debates are still enmeshed in fundamental misconceptions. These misconceptions lead mainstream economists to call not for outright economic central planning but rather for economic engineering by benevolent experts. Despite its apparent defeat, scientism still reigns. Although the Soviet flag flew for the last time on Christmas Day 1991, the battle of ideas is far from over.

Hayek's research program is grounded in what Boettke calls "epistemic institutionalism." What matters in a world where knowledge is tacit, dispersed, and often contradictory is that individuals must coordinate and cooperate in obtaining knowledge they do not have and ascertain mechanisms by which to share knowledge for the purposes of arbitrage. But these individual interactions are not enough. Hayek's research program also forces

us to ask questions about the institutional arrangements under which such coordination, learning, and discovery are possible.

For Hayek, in other words, the key questions of political economy trace back to social philosophy. If human flourishing is the goal for individuals and for society, there is a path that leads to human flourishing that must be grounded in a specific set of institutional arrangements. That system is one where prices, profits-losses, and property rights are the mechanisms for coordinating dispersed and self-interested persons. This decentralized coordination process percolates into social cohesion, economic order, and wealth creation, and requires a decentralized and limited system of government.

Boettke guides us chronologically through Hayek's work to understand both the grounding of his theories and how those ideas and assertions evolved. In the process, we come to comprehend key misunderstandings of Hayek's work that account for resistance to his ideas. Boettke lists ten of these misunderstandings, among them: that Hayek's reliance on methodological individualism meant humans are perfectly rational; that the price system is perfectly efficient; that he was categorically opposed to government action; that Hayek's resistance to formal modeling and statistical testing was based on old-fashioned methodological ideas that led to dogmatic stances rather than scientific progress; and that Hayek was roundly defeated by Keynes in macroeconomics and by Lange-Lerner with respect to market socialism. Hayek faced opposition and even the perception of defeat in debates over these issues, but his introspection and understanding of his intellectual rivals caused him to refine his ideas, which over time resulted in a body of work with much greater sophistication than those rivals realized.

The first phase of Hayek's intellectual career spans the period 1920 to 1945. Boettke calls this phase "Economics as a Coordina-

tion Problem." Here Hayek makes his biggest contributions to economic theory. Economics is about constant adaptation to change under conditions of radical uncertainty and subjective value. The market process in which the entrepreneur and the individual are the center must learn, discover, and coordinate through time. This is impossible without prices, profit-loss, and property rights, which are the grounding for this process.

As the 1930s progressed, Hayek's ideas bucked the trend toward central management of prices and production. Boettke thus deems the second phase of Hayek's career, from 1940 to 1960, "The Abuse of Reason Project." Boettke astutely asserts that this turn in Hayek's research stems from the interrelated philosophical and analytical rejection of the first phase of his ideas. At this time, central planning was actively pursued in the Soviet Union and produced GDP growth. For some economists, this seemed to demonstrate that central planning was not only possible but productive. Hayek confronted this with arguments based on the technical economic research of the first phase of his career.

The third phase dates from 1960 to 1980. Boettke terms Hayek's goal during this period "The Restatement of the Liberal Principles of Justice." Here Hayek focused on general rules and the contrast between liberal principles of justice and the demand for "social justice." Against this demand Hayek insisted that the rule of law is necessary for ensuring effective human agency. The final phase of Hayek's career runs from 1980 until his death in 1992. Boettke calls this "Philosophical Anthropology and the Study of Man," culminating in Hayek's book *The Fatal Conceit*.

Despite the distinctions between them, Boettke urges us to consider these four phases as a cohesive whole. They flow from one another in succession but remain deeply connected. Unlike many of his critics, Hayek understood that one cannot just be a technical economist without addressing personal

and social issues. Take Hayek's famous essay "The Use of Knowledge in Society." Here we see Hayek challenging the very questions that economists were asking. They wondered how to construct a rational economic order. Hayek rejected the premise: we can't construct a rational economic order, because we don't possess the necessary knowledge and have no way to gather it. Hayek takes the academics of his time at their word: they want neither death, starvation, nor authoritarian oppression. But he shows that these terrible conditions are unintended consequences of asking the wrong question.

Hayek witnessed these consequences in his own time. He endured the savagery of World War I and the Great Depression with its life-destroying hyperinflation and unemployment, saw the devastation of World War II, and worried about the rush to reconstruct what would inevitably become the breeding ground for more tyranny. All the while in the United States and Europe, government spending was resulting in bloated welfare states. Boettke shows us that the countries where Hayek lived—Austria, the United Kingdom, Germany, and the United States—saw government spending in some cases surpass 60 percent of GDP. Even more horrifying, Hayek witnessed a grotesque death toll across the globe due to the consolidation of power that always included economic planning. In the Soviet Union alone, that toll was more than eighty million human beings. For Hayek, these deaths were a sadly expected result from attempts at central economic planning. He understood that human life hung in the balance of the war of ideas. As such, the intellectual disputes and debates he engaged in were never merely academic but wholly relevant for the betterment (or immiseration) of the human condition.

Boettke characterizes Hayek as an intellectual revolutionary who suffered in two ways. First, his work was misunderstood by his opponents. Second, it was falsely appro-

priated by friends. This book is an effort to restore Hayek's intellectual accomplishment to its proper position, taking it back from both condescending enemies and undiscerning friends. That means continuing to build on Hayek's work in addition to understanding what he wrote—encouraging future generations of students to take up and continue the grand heritage of the Austrian tradition.

This task is important today more than ever. Memory of the immiseration brought about by centralized economic planning is waning in both academic circles and society overall. Today Venezuela burns because of the same mistakes, and scholarly debates are directly challenging anything that smacks of "neoliberalism." Mainstream scholars have not learned the lessons Hayek taught. They advocate "planned markets" and regulations that will temper the volatility they see as so dangerous. What they miss is that today's blunders are of the same variety as they were historically. One only has to recall the recent past, in which Thomas Piketty's seven-hundred-page *Capital in the Twenty-First Century* flew off the shelves. In this tome, Piketty blames markets for the concentration of wealth among the rich and calls for radical income redistribution as the only solution, unconcerned about the economic or social consequences of such a powerful income tax.

Boettke's very important book provides great insight into and intimacy with Hayek the thinker, his intellectual heritage, and his place in history. For all Hayek's faults and incomplete achievements, Boettke demonstrates the need to refine, challenge, and pursue the economist-philosopher's ideas and their implications. Boettke ends the book with an invitation to do so. We are right to accept it.

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