

# Epistemic institutionalism: Rules and Order, Complexity, and Liberalism

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## INTRODUCTION: EPISTEMIC INSTITUTIONALISM<sup>1</sup>

The temptation when reviewing a book is to talk about the one you, the reviewer, would have written, but which the person who actually wrote the book under consideration was not wise enough to write themselves. I am going to try to avoid that failing by engaging in an immanent critique of Boettke's *F. A. Hayek*, considering it on its own terms and seeing how well it succeeds in fulfilling the goals set by its author.<sup>2</sup> So, what is Boettke's goal? The book, we are told, is "not a proper intellectual history. (pp. xii, xiii). Rather, it "is the story of the evolution of a perspective of economic, political economic, and social philosophic thought about how the world works." The ultimate objective is to highlight the evolutionary potential of Hayek's ideas, by which is meant "what his ideas still have to say to us in our context and in our debates" (p. xiv).

Boettke's principal claim is that there is a common thread running through Hayek's work in economics and political philosophy. This is a commitment to "*epistemic institutionalism*", which is the term Boettke uses to refer to the way in which different institutional arrangements have different capacities to generate the knowledge and the feedback people need to coordinate their plans and thereby make good use of the resources at their disposal (pp. xiii-xiv). This emphasis on the epistemic properties of institutions is the key analytical focus of the book. It is central to Boettke's account of the development of Hayek's ideas and to his claims about their evolutionary potential. Boettke uses it to guide and shape his account of Hayek's work as encompassing three main stages (pp. xvi-xvii).

- In stage one, which Boettke entitles 'Economics as a Coordination Problem' and which in his telling lasts from about 1920 until the mid-1940s, Hayek focuses on the

problem of plan coordination (including, in Hayek's theory of the trade cycle, intertemporal coordination) (chapters 3-5 or pp. 37-139).

- The second stage of Hayek's intellectual journey centres on his "Abuse of Reason Project", which in Boettke's view covers the period from 1940 until 1960. In those years Hayek reflected upon why all too many of his fellow economists adopted formal analytical methods that obscured the fundamental economic problem faced by society and (therefore) the role of institutions in solving it. In particular, as Boettke makes clear in some of the best sections of the book, in the 1940s and 1950s Hayek considers how in their efforts to imitate the trappings of the natural sciences, neoclassical economists increasingly concentrated their analysis on equilibrium states. But in a world of equilibrium, institutions are largely redundant, since the problems of coordinating people's plans—to which they contribute—has already been solved. Neoclassical economics' focus on equilibria, and the demands of constructing formal models, therefore led to institutions first of all fading into background of the analysis, as a recognised but largely unstated background condition, and then to their being ignored together (pp. 141-95 or chapters 6-7; also see pp. 113-14, 229-32).<sup>3</sup>
- Finally, in Stage 3 of his work, which covers the years between 1960 and 1980, Hayek draws out the implications of epistemic institutionalism for political philosophy, in what Boettke refers to in chapters 8-10 of the book as Hayek's "Restatement of the Liberal Principles of Justice" (pp. 179-281).<sup>4</sup>

As already noted, Boettke's account is not merely an historical one. He also contends that Hayek's work can inform contemporary work in economics and political philosophy,

seeking to show how the notion of epistemic institutionalism can be used to cross-fertilise ideas from other traditions—perhaps most notably those of the Bloomington and Virginia Schools—in order to develop new, fruitful lines of inquiry.

There are many interesting and attractive features of Boettke's approach. His overall account of epistemic institutionalism as *the* Hayekian research programme is compelling; his discussion of rule of law as a bulwark against intervention (pp. 211-23) is insightful; his excoriating critique of what he refers to as 'litmus test' libertarianism (pp. 265-69), which "celebrates not the liberal virtues but the right of the individual to be closed, to reject, and to be intolerant" (p. 267), is powerful and timely, as are his criticisms of populism (pp. 269-72); and his invitation to inquiry about twenty-first century cosmopolitan liberalism is appealing (pp. 272-77).

In what follows, I explore various ways in which some of Boettke's arguments could be strengthened, the better to achieve his goals. There are three such areas. The first is Boettke's account of Hayek's epistemic institutionalism, which I shall argue does not bring out as clearly as it might the way that Hayek's fullest explanation of how plan coordination is possible in decentralised market economies is to be found only in his later, post-1960 work on political and legal philosophy (Section 2). Second, I shall argue that Boettke pays too little attention to Hayek's complexity theory, both in his account of Hayek's Abuse of Reason project but also, and more importantly, in his exposition of Hayek's epistemic institutionalism. The upshot is that Boettke's book largely ignores material from which a good deal of the evolutionary potential of Hayek's ideas derives (Section 3). Third, in section 4, I consider Boettke's account of the causes of Hayek's institutional term from the 1930s onwards. Boettke is of course correct to identify market socialism and Keynesian economics in important causes of Hayek's increasing emphasis on the institutional framework within which economic activity takes place. However, Boettke could, and should, have said more about another important contributory factor, namely discussions within liberal circles in the 1930s and 1940s—in which Hayek was an important participant—about how, in order to revive the fortunes of liberalism, its supporters needed to think much more about the positive role of the state in shaping the legal framework required to sustain a spontaneous market order. Doing so would also have helped Boettke to achieve another of his goals, namely dispelling some of the cruder stereotypes about the early days of the Mont Pelerin Society. Sec-

tion 5 identifies some other interesting potential points of discussion and concludes the review.

## BOETTKE'S INTERPRETIVE STRATEGY, EPISTEMIC INSTITUTIONALISM AND HAYEK'S IMPLICIT ECONOMICS

My first point concerns Boettke's interpretive strategy. Boettke describes it as follows:

[T]he most productive reading of Hayek is one which sees the common thread in his work from psychology to economics to the philosophy of science to political philosophy to law and finally to philosophical anthropology and social theory. The common thread is [the] decisive epistemic turn to comparative institutional analysis. (p. 25)

On this view, Hayek "was always working as a technical economist concerned with the problem of economic coordination through time, and he was always a political economist who cared about the institutional infrastructure within which economic activity took place" (p. xvii).

This approach, according to which Hayek's "version of institutional economics must be read back in an explicit way into his earlier writings" (p. xix), certainly brings advantages, not the least of which is that it enables Boettke to identify a strong narrative thread—centring on the notion of 'epistemic institutionalism'—that runs through his account of Hayek's intellectual career. And Boettke deploys that narrative to good effect, using it to undermine some common fallacies about Hayek's work, such as the view that Hayek's work provided no more than intuitions about the working of the market could, and indeed had to be, formalised in order to realise their full potential (pp. 79-80, 106-08),<sup>5</sup> and also to clarify Hayek's key argument against socialism, namely that the knowledge for central planning is institutionally contingent and cannot be utilised by planners even in principle, simply because it does not exist absent the rivalrous process of market competition (pp. 12, 23-24 104, 132-33).<sup>6</sup>

But this interpretive strategy also comes at a price, because by placing so much emphasis on epistemic institutionalism as the common thread of Hayek's thought, it tends to 'flatten out' his intellectual trajectory more than is perhaps warranted. What I mean by 'flattening out' is that it makes it harder than it might otherwise be to acknowledge

the extent to which Hayek's understanding of the role of institutions in facilitating social order displayed an upward trajectory, developing and yielding new insights over time.

To illustrate this point, I want to consider one of the misconceptions about Hayek that Boettke seeks to dispel, namely that "Hayek effectively abandoned economics after the publication of *The Pure Theory of Capital* ... [in 1941] and retreated to political theory, legal theory and public intellectual work" (p. 4). I should say at the outset that I completely agree with Boettke's interpretation. My concern lies more with the way that his interpretive strategy makes it harder than it might otherwise be for him to make it clear to his readers precisely how, and to what effect, Hayek continued to do economics in the 1950s, 1960s and 1970s. My point, in a nutshell, is that it is only in his post-1960 writings—that are ostensibly about political and legal philosophy—that Hayek actually solves the challenge, which he had first posed in "Economic and Knowledge" in 1937, of explaining how order is possible in modern industrial economies characterised by elaborate divisions of labour and knowledge. Of course, and most famously, Hayek advanced his first major account of the causal processes through which knowledge is discovered and transmitted, and plans coordinated, in his essay on 'The Use of Knowledge in Society' ([1945] 2014). Through his famous tin example, as we all know, Hayek argues that when individuals act on the basis of their local knowledge, they generate changes in relative prices which indicate the consequences of their actions for the scarcity of various goods and thus convey to others hints about the local knowledge which informs their actions, thereby enabling people successfully to coordinate their actions with one another.

However, as Steve Fleetwood (1995) and one of the scholars to whom Boettke's book is dedicated, namely Karen Vaughn (1999), have argued, it was only later, in his post-1960 work on social theory and political philosophy, that Hayek developed a fully-fledged, and convincing, theory of how social order is possible in decentralised market economies. In those later writings, Hayek argues that the dissemination of knowledge required for plan coordination is facilitated not only by price signals but also by a system of formal and informal social rules (such as the laws of property, tort and contract, and norms of honesty and promise-keeping respectively). For Hayek, those rules are repositories of practical social knowledge, embodying inherited wisdom concerning how people should interpret and respond to various kinds of situation. By facilitating enforceable contracts, those rules help to reassure people that the

contributions they need others to make if their own plans are to come to fruition will actually be forthcoming. The rules can thus be seen to be an important source of the knowledge that—in conjunction with the knowledge provided by relative price signals—helps people to form reliable expectations of each other's future conduct, enabling them to adjust their plans to one another. As Hayek writes in *The Mirage of Social Justice*,

What reconciles the individuals and knits them into a common and enduring pattern of a society is that ... they respond in accordance with the same abstract rules ... What ... enables them to live and work together in peace is that in the pursuit of their individual ends the particular monetary impulses which impel their efforts ... are guided and restrained by the same abstract rules. If emotion or impulse tells them what they want, the conventional rules tell them how they will be able and be allowed to achieve it. (Hayek 1976: 12; also see [1967] 1978: 85.)

For the later Hayek, then, social rules are just as important a source of the knowledge required for plan coordination as relative prices. While there are gestures towards this argument in some of Hayek's writings in 1940s,<sup>7</sup> he made the point most fully in his later, post-1960 writings on political philosophy and the law, where what is arguably his most complete account of the possibility of social order in decentralised market economies can be found.<sup>8</sup>

Hayek recognised this point himself, writing in "Kinds of Rationalism"—in a passage cited by Boettke (p. 5), but whose full significance is not I think made clear in the rest of Boettke's book—that while he had developed key insights into the issue of plan coordination in his 1937 and 1945 papers, "it was still a long way from this to an adequate insight into the relations between the abstract rules which the individual follows in his actions, and the abstract overall order which is formed as a result of his responding, within the limits imposed upon him by those abstract rules, to the concrete particular circumstances which he encounters":

It was only through a re-examination of the age-old concept of freedom under the law, the basic conception of traditional liberalism, and of the problems of the philosophy of the law which this raises, that I have reached what now seems to me a tolerably clear picture of the nature of the spontaneous order of which liberal economists have so long been talking. (Hayek [1965] 2014: 50.)

What Hayek is saying here, I submit, is that it is only in his later, post-1960 work that he provides a full account of how the market system solves the key economic problem of coordinating people's plans in the face of dispersed knowledge, theorising explicitly the epistemic function served by social rules and integrating it into his account of the informational role of relative price signals. Those later writings can thus be seen to contain what Karen Vaughn has felicitously referred to as "Hayek's Implicit Economics."<sup>9</sup>

Boettke mentions Hayek's 'implicit economics' (p. 5) but he does not, I think, make clearly enough the point made by Fleetwood and Vaughn that, far from simply drawing out the implications for political and legal philosophy of an already complete economic analysis of social order, Hayek's post-1960s work sees him refine and develop significantly his account of plan coordination, even writing that "price signals represent the institutional guidepost for learning within the market process" (which comes close to conflating the informational role of prices and social rules) (p. 132).<sup>10</sup> What this suggests is that Boettke could have pursued his goal of dispelling the myth that Hayek gave up on economics in the 1940s more effectively by pointing out that Hayek did not merely continue to apply the analysis of plan coordination he had already developed but rather continued to refine and improve it in the 1960s and thereafter.<sup>11</sup>

## THE COMPLEXITY OF HAYEK'S METHODOLOGY: THE ABUSE OF REASON PROJECT AND BEYOND

The second stage of Hayek's intellectual journey demarcated by Boettke centres on his "Abuse of Reason Project." In Boettke's view, this covers the period from 1940 until 1960 and saw Hayek striving to uncover and criticise the "philosophical and methodological underpinnings of modern social science" (p. 25). In doing so, Hayek would explore the origins and expose the shortcomings of ideas that he believed had led to a failure to appreciate the importance of spontaneously grown social orders and to an unjustified faith in man's capacity to plan society (pp. 27, 33, 285-86).<sup>12</sup>

A major contribution to this endeavour was the publication of Hayek's essays on "Scientism and the Study of Society."<sup>13</sup> In those works, Hayek advances a critique of scientism—defined as the "slavish imitation of the method or language of science" ([1942-44] 2010: 80)—as well as giving an account of how he thinks the study of the social world ought to proceed. Put succinctly, Hayek's conclusion is that the methods appropriate for the study of the natural and

social worlds are quite distinct. While a truly scientific approach would recognise the differences between the natural and social worlds, in particular those stemming from the subjective character of human action, and acknowledge that they called for different methods of investigation, those who fell under the spell of scientism failed to do so and consequently adopted an approach that led them to ignore key aspects of the social world. In particular, according to Hayek, their chosen methods left them unable to recognise the importance of spontaneously-arising social orders and with an unjustified faith in people's capacity consciously to design institutions and plan outcomes (Hayek [1942-44] 2010: 142-55).

However, what Boettke does not mention is that Hayek's views underwent a significant change in the 1950s, when he ceased to draw a sharp division between the natural and the social sciences, distinguishing instead between sciences that study simple systems and those which study complex systems.<sup>14</sup> That a significant omission on Boettke's part—one that is of more than purely historical interest—because it ultimately has consequences for the very issue that upon his account lies at the heart of Hayek's work, namely epistemic institutionalism. To see why, it is necessary first to explain what Hayek means by the notion of a 'complex system'.<sup>15</sup> For Hayek, complex systems have two defining characteristics. One is that they display emergent properties; the system as a whole possesses properties that are not possessed by any of its individual component parts ([1964] 2014: 262; [1975] 2014: 365). The other is that in complex systems the "the number of significantly interdependent variables is very large and only some of them can in practice be individually observed" (Hayek, [1955] 2014: 200). These attributes are important, in Hayek's view, because—as we shall see—they imply that there are limits to the extent to which social scientists are able to explain and predict the behaviour of complex systems.

These ideas are significant for our present purposes because the notion that society is a complex system informs and shapes Hayek's efforts in the 1960s and thereafter to conceptualise the very issue that—in Boettke's estimation—stands at the heart of Hayek's 'epistemic institutionalism', namely the relationship between social rules and the possibility of plan coordination and social order. For what Hayek ultimately comes to argue is that the capacity to coordinate people's plans—the "order of actions", as Hayek terms it<sup>16</sup>—is best conceptualised as an emergent property of the entire system of rules  $\{r_1, r_2, \dots, r_n\}$  that governs people's activities (rather than being the product of any one of those rules or

the mere *sum* of their separate effects taken in isolation).<sup>17</sup> Put slightly differently, there is an intricate rule *structure*, with certain rules complementing each other in the sense that, taken together, they sustain emergent properties not possessed by any of them alone (Hayek [1967] 2014: 280, 283 and Hayek 1973: 59-61 105-122-23). For Hayek, therefore, the overall order of actions is neither equivalent to the underlying set of rules, nor can it be readily predicted as the simple resultant of them; rather it is an emergent property that supervenes on the system of rules in question (Gaus 2006; Lewis 2015 Gaus 2018).<sup>18</sup>

The fact that Hayek increasingly comes to view his epistemic institutionalism—his account of the relationship between rules and order—through the lens provided by his theory of complex systems is important because it suggests there are limits to the extent to which social scientists can predict and explain the behaviour of such systems. In particular, while it is possible to give an account of the causal mechanisms through which complex social phenomena such as the market order are produced, such explanations and predictions will be limited to the general features of those outcomes, not their details. For instance, while social theory can explain some of the key abstract or *qualitative* features of the market order, most notably the coordination of people’s plans that is its defining characteristic, it can neither explain nor predict the concrete details of the distribution of the rewards earned by different people (because those features of the system will depend upon some of the many variables that are inaccessible to the analyst, such as the local knowledge of, and particular judgements made by, myriad individuals).<sup>19</sup> Such ‘explanations of the principle’, as Hayek terms these accounts of the causal process through which people’s (inter)actions lead to certain kinds of outcome, can also help us to make general or (as Hayek terms them) *pattern* predictions, such as that an increase in the demand for a good will lead to a rise in its price or that the absence of the institutions of a liberal polity is incompatible with social order; but they do not facilitate reliable *quantitative* predictions of the precise magnitude of that price rise (Hayek: [1955] 2014: 202-09; [1964] 2014: 260-71).<sup>20</sup>

These ideas are relevant for Boettke’s project for at least two reasons. First, they can help to head off a line of criticism that is often levelled at Hayek and to which Boettke alludes towards the end of his book. The charge is that there is a tension in Hayek’s thought, arising from the way that he argues both (i) that it is impossible for us to know enough about the social world successfully to implement certain policies and achieve certain goals, such as widespread plan-

ning and a particular distribution of income respectively, whilst at the same time he also contends (ii) that we can know enough about the world not only to rule out such policies and goals but also to engage in the reform of existing institutions (as perhaps most strikingly seen in the plan for a model constitution set out in volume 3 of *Law, Legislation and Liberty*). This line of criticism is implicit in Michael Oakeshott’s barbed remark that Hayek devises “a plan to resist all planning” (1991: 26) and is made explicitly by other critics, such as Geoff Hodgson, who argue that by appealing to reason to limit the scope of rationalist thought, “Hayek has placed himself in a contradictory position” (1993: 183). Of course, Hayek has done nothing of the sort, and one can appeal to ideas from Hayek’s work on complexity to see why. In a nutshell, Hayek is arguing that we can use our powers of reasoning to understand the operation of the causal mechanisms governing the production of social order in modern industrial economies. On the basis of such explanations of the principle, we can then go on—if only fallibly, of course—both to rule out as infeasible goals whose achievement is inconsistent with the smooth working of the causal mechanisms that sustain the extended order and also to suggest reforms that will enable us to instantiate the principles of a liberal social order more effectively in our institutions. In short, Hayek’s theory of complex systems affords us a set of epistemological categories that can help us to rebut the charge of inconsistency against which Boettke is rightly trying to defend Hayek.

Hayek’s work on complex systems is also important for a second reason. This is the contribution it makes to something by which Boettke sets great store, namely the scope for Hayek’s work to contribute to future research. Boettke wants to portray Hayek as the author of “a progressive research programme in the social sciences” (p. xix), which I take to mean that he wants to argue that, far from being merely of historical interest, Hayek’s ideas can fruitfully inform contemporary work in social science and political philosophy.<sup>21</sup> That is, of course, a goal I wholeheartedly endorse. My point is simply this. If one looks at the way in which Hayek’s ideas have been appropriated by interesting and influential social scientists and political philosophers in recent years, it has often—not always, of course, but often—been his work on society as a complex system that people have used. A recent article in *The Economist* lauded complexity economics as an interesting and important approach, mentioning Hayek as one of its early exponents.<sup>22</sup> Consider also the following (incomplete and idiosyncratic)

list of interesting and important work in economics and political philosophy:

- Jerry Gaus’s work on complex economic and moral system (Gaus 2018, 2019).
- David Colander and Roland Kuper’s work on ‘laissez-faire interventionism’ (Colander and Kupers 2014).
- Rob Axtell’s work on complex economic systems (Axtell 2016).
- Dick Wagner’s efforts to develop a system-theoretic approach to macroeconomics (Wagner 2012; Lewis and Wagner 2017).
- David Harper’s work on capital as a complex system (Harper 2014; Harper and Endres 2018).
- Roger Koppl’s work on complexity and computability (e.g. Koppl 2010).

Let me be clear what I am claiming in drawing attention to such research. I am not suggesting that Hayek’s work on complexity is the most important element of his work, or the one with the greatest evolutionary potential. There are many candidates for such accolades and I doubt that Hayek’s work on complexity would come top of everyone’s list of candidates for such awards. But I submit that it *is* important enough to warrant more attention that Boettke gives it. If you really aim to convince readers that they can “find insight and inspiration on how to think seriously about fundamental issues in economic science, political economy, and social philosophy” (p. xix), then you need to pay significant attention to Hayek’s work on complexity theory. In failing to give a proper account of Hayek’s work on complex systems, Boettke does not pursue as effectively as he might have done of his goal of highlighting the “evolutionary potential” (pp. 214, 252) of Hayek’s work on the epistemic properties of different institutional arrangements for contemporary political economy.<sup>23</sup>

## HAYEK’S INSTITUTIONAL TURN AND DEBATES OVER THE FUTURE OF LIBERALISM

When Boettke is explaining the ‘institutional turn’ in Hayek’s thought after the 1930s, he focuses—understandably enough—on the critiques offered by Keynes and by the

advocates of market socialism (e.g. pp. 135-37, 166-67, 229-30, 285). But in doing so he largely ignores—and, to the extent that he mentions it at all, gives an incomplete account of—another debate over liberalism that was taking place in the 1930s and 1940s, in which Hayek also played a central role. This is the debate *within liberal circles* in the 1930s and 1940s over the nature, and the future, of liberalism. Of course, this debate was a response to the rise of collectivism, to which the Keynesian and market socialist ideas highlighted by Boettke had contributed (along with the work of the Fabian socialists and so-called New Liberals).<sup>24</sup>

In Hayek’s opinion, however, there were other reasons for the decline of liberalism, some of which reflected how liberalism had come to be articulated by its defenders in the nineteenth century. For Hayek—and for others, such as Walter Lippmann, Walter Eucken and Henry Simons—one of the principal reasons why liberalism had lost ground to collectivism was that it had become too readily identified by defenders and critics alike as an essentially ‘negative’ doctrine, concerned principally with highlighting the shortcomings of government activity rather than identifying the positive role that state action could play. Consider, for example, the following passage from Hayek’s *Road to Serfdom*, which is quoted by Boettke:

It is regrettable, though not difficult to explain, that in the past much less attention has been given to the positive requirements of a successful working of the competitive system than to these negative requirements. The functioning of competition not only requires adequate organisation of certain institutions like money, markets, and channels of information – some of which can never be adequately provided by private enterprise – but it depends, above all, on the existence of an appropriate legal system, a legal system designed both to preserve competition and to make it work on beneficially as possible ... The systematic study of the forms of legal institutions which will work the competitive system work efficiently has been sadly neglected (Hayek [1944] 2007: 87; quoted in Boettke, p. 162)

Boettke quotes this passage in support of his claim that the neoclassical economists had neglected institutional analysis (pp. 161-62). But it is clear that in the section of *The Road to Serfdom* in which this passage is found, Hayek is concerned at least as much with criticising the attitude of some liberals, who he believed had reduced liberalism to a

negative doctrine centring on a presumption against government intervention (including a presumption that there was no role for government in reforming the legal framework itself):

It is important not to confuse opposition against ... [central] planning with a dogmatic *laissez-faire* attitude. The liberal argument is in favour of making the best possible use of the forces of competition as a means of coordinating human efforts, not an argument for leaving things just as they are ... [I]n order that competition work effectively, a carefully thought out legal framework is required and ... neither the existing nor the past legal rules are free from grave defects. (Hayek [1944] 2007: 85-86.)

The problem for liberalism, however, was that some of its advocates had neglected its positive aspect—the way that it allowed an active role for the state in “creating a system within which competition will work as beneficially as possible”—in favour of “passively accepting [existing] institutions as they are” (Hayek [1944] 2007: 71). “Probably nothing has done so much harm to the liberal cause,” Hayek contends, “as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of *laissez faire*.”<sup>25</sup>

In attempting to explain why Hayek made his institutional turn, therefore, it is important not just to consider his efforts to respond to neoclassical and Keynesian economics, but also to explore how Hayek came to believe that the revival of liberalism required its supporters to think much more about the positive role of the state in shaping the legal framework so that it was conducive to the emergence of a spontaneous market order. This was, of course, a key theme in the first meeting of the Mont Pelerin Society in 1947, where in his lecture on “Free Enterprise and Competitive Order” Hayek argued “the most fatal tactical mistake” of nineteenth century liberals was to have portrayed the fundamental liberalism as preaching the “absence of state activity rather than as a policy which deliberately adopts competition, the market, and prices as its ordering principle and uses the legal framework enforced by the state in order to make competition as effective and beneficial as possible” (Hayek [1947] 1948: 109, 110). For Hayek, as for the *ordo-liberals* and old Chicago school economists like Henry Simons, it was necessary for liberals to depart from the view that freedom of contract was sacrosanct, since some freely made contracts could reduce competition, and also to con-

sider how to reform corporate law, the law of patents, and labour law, all of which he believed had fostered monopoly power (Hayek [1947] 1948: 115-16).<sup>26</sup>

In addition to strengthening Boettke’s explanation of Hayek’s institutional turn, a discussion of Hayek’s belief in the need to reframe liberalism as a positive doctrine would also have served some of Boettke’s other purposes. One of Boettke’s goals is to rebut the charge that Hayek was categorically opposed to government action (p. 4). He also wishes to convince readers that the Mont Pelerin Society “was never a Davos for neoliberal economists ... but has always been a debate and discussion society concerned with foundational issues facing the liberal society” (p. xix), and that “MPS meetings focused on how to think about the challenges to liberalism and more importantly how to revise our understanding of true radical liberalism” (p. 258). A discussion of Hayek’s views about the shortcomings of liberalism, as it had come to be expressed in the first three decades of the twentieth century, and his belief in the need for liberals to discuss the positive aspects of liberal thought, would have enhanced Boettke’s efforts to promote both of those goals.

## CONCLUSION

There are many other aspects of Boettke’s book that merit discussion: the question of in what sense, if any, it is helpful to describe Hayek as adhering to ‘methodological individualism’ when his work is also characterised by “a bidirectionality between purposive human action and institutions; between agency and structure” (p. 192; also see pp. 4, 186-90);<sup>27</sup> the decision largely to ignore the fourth stage of Hayek’s thought, on “Philosophical Anthropology and the Study of Man (pp. xvii-xviii);<sup>28</sup> the portrayal of Keynes as someone in whose work “economic actors are prone to speculative behaviour (read irrational)” (p. 43);<sup>29</sup> and the significance of Boettke’s decision, when considering the evolutionary potential of Hayek’s thought, largely to pair it with ideas drawn from scholars who are committed advocates of the market—such as Coase, Buchanan, and Friedman—rather than with the work of thinkers more willing to countenance government intervention.<sup>30</sup> Hopefully some of the other contributions to this symposium will examine these themes. But for the moment it suffices to note that this thought-provoking book will undoubtedly stimulate debate about the work of a thinker whose ideas will remain fertile well into the future.

## NOTES

- 1 I am grateful for advice and encouragement from Bill Butos, Ted Burczak, Malte Dold, Lenore Ealy, Nathan Goodman, Shaun Hargreaves Heap, David Harper, Roger Koppl, John Meadowcroft, Mikayla Novak, Jochen Runde and Virgil Storr, none of whom should be held responsible for any errors in what follows.
- 2 All otherwise unattributed page references are to P. Boettke (2018).
- 3 As Boettke puts it, if the analytical focus is on equilibrium states, where people's plans are already aligned, then "many institutions are essentially redundant, pointless, or otherwise relegated to much more limited roles than our everyday experience of economic reality would ever suggest" (p. 113).
- 4 Boettke identifies but then largely ignores a fourth stage of Hayek's work, which he labels "Philosophical Anthropology and the Study of Man" (pp. xvii-xviii).
- 5 This point is a long-standing feature of Boettke's work, which has seen him long argue that the verbal (or appreciative) mode of theorising adopted by Hayek is not merely, as orthodox economists suppose, a vague, intuitive and unrigorous precursor to formal modelling but is rather a mode of analysis that is able to capture and do justice to insights to which formal theorising is blind (also see pp. 105-11; also see Boettke 1996, 1997, and Beaulier and Boettke 2004; also see Lewis 2005: 84-88). In elaborating on this point here, Boettke deploys Nelson and Winter's (1982) distinction between formal and appreciative theorising to good effect (pp. 79-111). For more on that distinction, and an argument complementary to Boettke's claim that appreciative theory yields genuine insights denied to those who rely on formal theory alone, see Northover (1999).
- 6 For a recent elaboration and development of this point, see Lourenço and Graça Moura (2018).
- 7 See, Hayek, *The Road to Serfdom*, p. 113 and Hayek, "The Use of Knowledge in Society", pp. 101-02.
- 8 This is one way of making sense of Boettke's otherwise rather cryptic remark that Hayek's 'institutional turn' starts with the publication of "Economics and Knowledge" in 1937 but "gains[s] in momentum in the 1940s and 1950s" (p. 153). It does so at least in part because, over time, Hayek articulates more clearly how social rules contribute to the solution of the problem of plan coordination.
- 9 See, for example, Hayek (1976: 107-32). Also see Vaughn (1999) and Lewis (2013, 2014). For different but closely related points on Hayek's continued efforts in the field of economics in the 1950s and 1960s, see Caldwell (2016).
- 10 For instance, Boettke writes on p. xviii of his book that, "It is important for my narrative to understand that ... [f]rom 1920 to 1980, [Hayek's] work consistently and persistently is grounded in his 'Austrian' understanding of the coordination of economic activity through time.' That is true; but it leaves unsaid the important point that Hayek's understanding of order develops over time, along the times I've suggested. Similarly, in a recent 'Liberty Matters' discussion of his book, Boettke writes that, "Hayek's *epistemic institutionalism, as articulated in the 1930s and 1940s*, provided the foundation for his own reconstruction and restatement of liberal political economy as evidenced in *The Constitution of Liberty and Law, Legislation and Liberty*" (see <https://oll.libertyfund.org/pages/lm-hayek>; emphasis added). Readers could be forgiven for taking that to mean that Hayek developed a complete theory of coordination in the 1930s and 1940s and then without developing further it simply drew out its implications for liberalism in the 1960s and 1970s. Readers might also be led astray by claims, such as that found on p. 93 of the book, that "Hayek himself had basically left technical economics by mid-century." It is also noteworthy that, when he does discuss sources of information other than relative price signals that contribute to plan coordination, Boettke often refers only to people's local awareness of things such as the availability of other goods and their knowledge of how they can be obtained, (pp. 84-86, 105-06), only briefly mentioning the role of social rules in helping people to predict one another's future conduct towards the end of the book and then without explaining how those rules complement and work hand-in-glove with the informational role of prices (p. 191).
- 11 It is indeed the case, as Boettke writes on pp. 4-5 of his book, that "Hayek's ideas went through critical refinement throughout his long career." And that was as true of his understanding of epistemic institutionalism as of any other aspect of his thought.
- 12 For a more detailed account, see Caldwell (2004: 232-60).
- 13 The scientism essays were first published in *Economica* between 1942 and 1944. Now see Hayek ([1942-44] 2010).
- 14 See Hayek ([1955] 2014 and [1964] 2014). Several influences arguably contributed to the shift in Hayek's views, including criticisms of his account of the natural sciences by philosophers Ernest Nagel and Karl Popper and a referee's report on 'Degrees of Explanation' written by mathematician Warren Weaver. For details, see Caldwell (2014: 14-16).
- 15 For fuller accounts, Gaus (2006), Lewis (2013: 395-98, 2015) and Lewis and Lewin (2015).

- 16 Hayek [1967] 2014: 278-80 and Hayek 1978: 135-36, 139.
- 17 The functioning and causal impact of any one rule depends on the other rules in the system of which it is a part so that, as Hayek puts it, “any given rules of individual conduct may prove beneficial as part of one set of such rules, or in one set of external circumstances” (Hayek [1967] 2014: 280).
- 18 Similar views are expressed by another of Boettke’s intellectual touchstones, namely Elinor Ostrom, according to whom “rules combine in a configurational or interactive manner” in the sense that “the way one rules operates is affected by other rules” (Ostrom [1986] 2014: 108, 100). For more on the parallels between Hayek and Ostrom on this issue, see Lewis (2017).
- 19 See, for example, Hayek [1967] 1978: 75, 1967: 70-73.
- 20 It is not only social scientists, but also laypeople who can be thought of as navigating a complex social world by making pattern predictions, based on their knowledge of the social rules that govern their activities (Lewis and Lewin 2015: section 7; Boettke p. 84).
- 21 For more on Boettke’s views on how the study of older works in economics can inform contemporary research, see Boettke (2000, 2002).
- 22 *The Economist* (2019).
- 23 The obvious response to this line of criticism, namely that considerations of space precluded a proper discussion of Hayek’s ideas about complexity, does not, I think, suffice in this case; especially given the fact that significant portions of the book are devoted to thinkers other than Hayek, it is not hard to see how, with a little judicious editing, room could have been made in the book for an outline of this aspect of Hayek’s work.
- 24 Hayek (1978: 130-32) provides an account of the decline of liberal ideas in the early twentieth century.
- 25 Hayek had made similar points on several occasions in the 1930s, including in his inaugural lecture at the LSE. where he argued that nineteenth century liberals had “very much neglected the positive part of the task and thereby allowed the impression to gain ground that *laissez-faire* was their ultimate and only conclusion—a conclusion which, of course, would have been invalidated by the demonstration that, in any single case, State action was useful. To remedy this deficiency must be one of the main tasks of the future” (Hayek [1933] 1991: 31; also see Hayek [1939] 1997: 194-96).
- 26 A notable dissenting voice belonged to Ludwig von Mises. In contrast to Hayek, Simons, and the ordo-liberals, Mises regarded freedom of contract as sacrosanct. He therefore advocated a ‘night watchman’ state whose activities would be confined to the provision of national defence and the enforcement of any and all voluntarily-agreed contracts. Underlying this divergence of opinion was Hayek et al.’s view that free market contracting could give rise to monopolies, endogenously as it were, whereas Mises believed that monopoly power arose only exogenously, as a result of misguided government policies that limited competition. Consistent with this continued commitment to nineteenth century *laissez faire*, Mises also wished to retain the word ‘liberalism’ unmodified in any way (whereas those who believed that reviving liberalism required it to be differentiated from nineteenth century *laissez-faire* also strove to find a new name for it). Indeed, it is in recognition of such differences with the classical liberalism of Mises that Hayek later described the ordo-liberals as adopting “a restrained liberalism” and as a “neo-liberal” movement or group (Hayek [1983] 1992: 189 and Hayek 1978: 146).
- 27 For more on this issue, see for example Hodgson (1991, 2007) and Lewis (2014: 218-19, 2020: section 4).
- 28 This decision means that Boettke’s book does not consider another important source of contemporary interest in Hayek’s ideas, centring on recent work examining how group selection processes of the kind postulated by Hayek shape people’s preferences and dispositions (in particular so as to give rise to so-called ‘pro-social’ preferences or a disposition for other-regarding, rather than purely self-interested, behaviour). See, for example, Wilson (2004), Wilson et al. (2013), and Gintis and Bowles (2014).
- 29 For different readings, all of which suggest that Keynes’s analysis of investment was based on a concept of rational behaviour, albeit one that differs significantly from the expected utility-maximisation presupposed by orthodox economics, see Lawson (1985, 1991), Runde (1991) and Meeks (2003).
- 30 See for example Hodgson (1999, 2016), Burczak (2006), Colander and Kupers (2014), Wilson (2015), Wilson and Gowdy (2015), and Bowles et al. (2017).

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