

Epistemics and
Economics, Political
Economy and Social
Philosophy: A Review of
Scott Scheall's *F. A. Hayek
and the Epistemology
of Politics*

PETER BOETTKE

George Mason University

Let me start with the obvious, for otherwise we wouldn't be engaged in this symposium, Scott Scheall's *F. A. Hayek and the Epistemology of Politics* is an outstanding work in the history and philosophy of economics, and the result of years of sustained study of the works of F. A. Hayek. For students of Hayek, and for students of social philosophy, Scheall's book is required reading and will be for some years to come.

As anyone who reads the book will learn soon enough, Scheall and I have fundamental disagreements in our understanding of Hayek, and in the implications we draw for building a *progressive research program in the social sciences* (Scheall 2020, pp. 92, 108-11). That last statement might be a bit of an overstatement because Scheall is a philosopher, and as he states throughout his book he is not a social scientist. He has strong opinions about how a Hayek inspired social science should proceed, but he believes in the division of labor so he is inviting social scientists to work along the lines he is suggesting. My work is that of a practicing political economist and social scientist who is trying to give other aspiring political economists a framework for analysis of the social world—past, present and prospective. That alone might explain our differences.¹ But there are also argumentative preferences involved. Scheall finds Menger and Hayek persuasive, and Mises and Rothbard retrogrades. He doesn't find Lavoie's efforts in reconstructing and refining the socialist calculation debate particularly helpful nor does he find Lavoie's efforts to build on the growth of knowledge literature in the philosophy of science persuasive. And he finds my own efforts to steer a course in economics, political economy and social philosophy that draws on these writers and merging them with Buchanan and the Ostroms (both Vincent and Elinor) to be an incoherent rendering of the Hayekian contribution.

I will return to some of these points in what follows, but my intent in this essay is *not* to rehash our disagreements, but to try to stress where I think Scheall has made significant contributions in advancing our understanding of the problem situation that Hayek identified in social science and ultimately why I believe to answer the very questions his epistemic turn demands one must take a radical institutional turn. My appeal in the end is for further development of Scheall's argument and gains from intellectual exchange that could result putting our differences aside.

Scheall views epistemology—the theory of knowledge—differently from epistemics—the use of knowledge in society. Hayek wrote a very powerful paper, I would argue, entitled “Within and About Systems: A Statement of Some Problems of a Theory of Communication.”² The reason I am highlighting this paper is the differences between

the knowledge of the theorist and the knowledge of the actors within the system under investigation. One of Hayek's critical contributions was to turn the attention of social scientists to the question of learning by the actors *within* a system, by studying how they discover and put to use the knowledge they acquire, and revising their actions based on this knowledge and adapting and adjusting based on feedback they received in pursuing their various plans as critical to the operation of the system.³ Studying that process of the discovery, utilization, and communication of knowledge in society is what theorists do to learn *about* the operating principles of the system they are examining. The knowledge of the theorist is wholly different from the knowledge of the actor.

Though he doesn't discuss this during his discussion of the debate between Keynes and Hayek, it would be valuable for the reader to contrast the knowledge assumptions that are made by Hayek, Keynes and the other contending theorist Robert Lucas (see Scheall 2020, pp. 54-63; 165-170). To Keynes, the actors in the system are "ensnared by the dark forces of time and ignorance", and as a result they cannot see their way through to coordinate their economic plans with one another. The theorist of the economy does not suffer this problem, and as a result provides the necessary correctives from *outside* the system. Scheall raises a good challenge to this on a practical level, but I think the discussion misses the fundamental problem. Lucas and the rise of New Classical Macroeconomics challenged the Keynesian hegemony at a fundamental level on the issue of the knowledge assumptions deployed by the theorist. Why would monetary and fiscal illusion persist in the Keynesian model? Rational actors would be able to pierce through those dark forces of time and ignorance precisely because their inability to do so had significant costs that they would have to bear. What economists learned in their microeconomics class had to be applied to what they were learning in their macroeconomics class, and when they did so, the persistence of illusions would be called into question. The upshot was Lucas basically argued that the actors in the economy know what the theorist knows about the operation of the economy, and the consequences of public policy. The corrective effect of the policies would be neutralized. Policy could either be effective but random, or it could be rational but ineffective. The Lucas critique from the core modeling problem to the applied policy level of analysis was devastating to the Keynesian model and resulted in a revolution in macroeconomic thinking that is still evident in the scientific literature. A curiosity of this, is that when Lucas first embarked on his scientific revolution he often would refer to his alternative as Neo-Austrian, and cite favorably Hayek's work on business cycles. Kevin Hoover (1984), among others, pointed out the problems with this version of intellectual history, and so its history was very brief indeed. However, even in those correctives a critical subtle difference emerged between Hayek and Lucas on the knowledge assumptions respectively employed in their theorizing about *within* systems and *about* systems. To Lucas, no actors within the system doesn't know what the theorist knows about the system. But to Hayek, no theorist can know what the actors in the economy know and act upon. The *context* of the two exercises of studying about and acting within is radically divorced for Hayek, and cannot be bridged. The curious task of economics, is to demonstrate to men (substitute theorists) how little they really know about what they imagine they can design.

The knowledge discovered, utilized, communicated and revised *within* the system is knowledge of particular time and place not available to any single mind nor reducible to data that can be collected and subjected to statistical analysis. It is rather knowledge embedded in the interpretations of signals, the judgment of the situation, and perhaps judgments of others judgments that are made by the actors on the spot. It is contextual knowledge of thoughts put into action, not abstract knowledge of thoughts put into theories. And unless you are in that context, you cannot access it. Theorist can never know what the actors in the system know. The task of finding that knowledge is not difficult; it is not complex, it is not computational in nature at all. This is the realm of *epistemic institutionalism* as I have dubbed it (see Boettke 2018). Economists and political economists from the Classics to the Moderns have all sought to deploy the technical principles of economics to explore how alternative institutional arrangements either promote or hinder the ability of individuals to pursue productive specialization and realize social cooperation through exchange. The vast majority of these efforts focused on a simple and profound point: incentives matter. And indeed they do. But in the first half of the 20th century a few things conspired to confuse that simple and profound

point—most pernicious of which were excessive aggregation and excessive formalism. A consequence of both of these intellectual developments was that the individual decision maker and their institutional context of choice were pushed to the side, and abstract principles of optimality and maximizing a stable and coherent social welfare function came to dominate theoretical economics. While many economic thinkers in the 1930-1960 period were poking various holes in this abstract theoretical edifice, Hayek honed in on his critique based on the knowledge problem associated with these exercises. Hayek focused on the social epistemics of alternative institutional environments, and the *contextual nature of that knowledge*.

None of this should actually be taken as a criticism of Scheall's efforts to clarify and critically expand Hayek's epistemology and the "theory problem" that Hayek confronts. My view is that it is instead a complement to his work. The knowledge problem of the theorist of the social system of exchange and production is one thing, the knowledge problem of the actors within that social system is another. The science of complexity and of computability are problems theorists face in understanding social order, reading price signals, pursuing profit opportunities, adjusting in the wake of losses, and ultimately the decision to buy and sell, or abstain from buying or selling, are problems faced by actors in that system. We cannot divorce them completely from one another, and make progress, just as we cannot collapse them onto one another and make progress. Scientific progress in economics, political economy and social philosophy is made when we understand the difference between knowledge *about* systems and knowledge *within* systems, but also how that knowledge *within* the system imposes upon the theorist to use Scheall's terminology an epistemic burden that must be met and which demands that the technical principles of the logic of choice must be blended with the situational logic of institutional analysis to provide a theoretical framework to be deployed in empirical analysis of the social world.

Scheall makes a strong argument throughout that Hayek is identifying a radically empirical problem that must be solved if his theory of society is to hold. And this is a completely correct interpretation. The 1937 paper of Hayek is the urtext for this radically empirical turn in economic research. But it is critical to my mind to remember that not only did Hayek in 1937 not abandon the pure logic of choice, in the 1960s when he returned to theoretical economics his working title was *The Economic Calculus* (see Caldwell 2016). The point Hayek (1937) was making was that the pure logic of choice was a necessary, but not sufficient component in the theory of the price system and the competitive market process. The pure logic of choice had to be cojoined with the situational logic of human interaction within alternative institutional arrangements. And the criteria Hayek focused on was how human actors learned in these alternative environments to coordinate their plans with one another, to discover new knowledge, to deploy it in valuable ways, and to adapt and adjust to changing circumstances through time. In short, social epistemics of the market is the radically empirical program, and that requires that the epistemic turn Hayek took in the wake of both the socialist calculation debate and the dispute with Keynes had to evolve along with the institutional turn he took as he came to stress more and more that framework within which actors interacted with others in the marketplace, in the polity, and in society in general.

The other strong argument Scheall makes is flipping the Hayekian critique back on itself with respect to the liberal project in general and the change from the status quo mid-20th century to a true radical liberalism that Hayek envisions and begins to articulate in the second half of the 20th century (see Scheall 2020, pp. 75-104). Scheall is right, there is an epistemic burden to be met.⁴ There are also questions of incentive compatibility that must be met. By who though? The theorist, no doubt must meet an epistemic burden. The actors themselves do as well, but how can you tell if they are or aren't meeting the epistemic burden that is relevant to them? Well, presumably if there were wide-spread coordination failures in the system, we would say that the actions *within* the system were not meeting some sort of incentive compatibility and epistemic burden. But the theorist theorizing *about* the system if they could identify those dysfunctions and present them in a way that met the Quinean argumentative virtue test would certainly pass Scheall's epistemic burden test. Critical to passing that test, however, is the social scientific investigations of how alternative institutional arrangements either hinder or promote the social learning among actors that is required to pursue productive specialization and realize peaceful social cooperation. The division of labor leads us to highlight

how the division of knowledge in society is coordinated. None of us knows how to make a common woolen coat or a #2 pencil by ourselves, but the social system does, and the theorist comes to appreciate that outcome in a way that the actors inside the system never do; the actors inside the system know details about how, what, and when with regard to that process that the theorist can never know. Again, planning that system on the basis of the theoretical knowledge about the system is a category error, and it is not just a difficult complicated task but an impossible task to pursue. And it can only become more obfuscated and confused when assumptions of omniscience and omnipotence are slipped in to the analysis by the theorist for the sake of formal tractability in the modeling exercise.

F. A. Hayek and the *Epistemology of Politics* is an outstanding contribution to the literature in Hayek studies, and Scott Scheall should be congratulated for the “window” he opens for scholars to view Hayek through. Scheall actually touches on most of the issues I raise, so my suggestions are really ones of emphasis and development of the argument. However, I believe he is leaving a number of proverbial \$20 bills lying on the sidewalk in the scholarly marketplace of ideas. To give but one example, Scheall (2020, pp. 146ff) finally turns to the question of the social context of science itself. “Scientists,” he tells us, “are no more gods than are policymakers.” This is a profoundly true statement, but it also could result in an engagement with Michael Polanyi and the Growth of Knowledge Literature (that Lavoie draws on), or it could lead to Gordon Tullock’s discussion of the organization of inquiry, and his reflections on the relevance of “Flatland” for the saga of social sciences, or to David Levy and Sandra Peart’s adjudications and reflections on Polanyi and Tullock and the quest for a social science of natural equals once we insist that the theorist be placed *in the model* (see Levy and Peart 2017a; 2017b; 2019). In a very specific setting of science and public policy, of course, Roger Koppl’s *Expert Failure* (2018) could be leveraged more prominently in Scheall’s analysis to the benefit of *his* own narrative concerning policymaker ignorance and the epistemology of politics.

Scheall to my mind misses out on these opportunities in the current book, but would no doubt benefit greatly by seeking mutual gains from intellectual trade with these and other sources in future work. I think as Scheall continues to develop and advances his epistemology of politics agenda with further work the very social science he is inviting will lead him to the sort of *social epistemics* which one finds in writers like Levy and Peart and Koppl about the nature of science and the task of theorizing *about* social order, and Buchanan and the Ostroms about the nature of the problems actors *within* the social order in their various attempts to solve dilemmas, revolve tensions, and in engaged in collective action. All of which must be explained if a complex adaptive system of social order is to be understood as functioning. Buchanan’s critique of Arrow’s rendering of the problem with democratic decision making and the Ostroms work on polycentric orders can both greatly advance the agenda that Scheall is seeking to pursue in making Hayek’s work the focal point of a renewed appreciation of the central puzzles in economics, political economy and social philosophy. I find the absence of any serious engagement on the relationship between Hayek and Buchanan to be particularly problematic for a work on the epistemology of politics. And, of course, I would be remiss if I didn’t mention also that Scheall could also benefit from leveraging the work of Israel Kirzner on alertness to entrepreneurial opportunities in commercial ventures, or Ronald Coase’s focus on the ability of neighbors to bargain away of conflicts, and Douglass North’s examination of exchange, production and distribution activities through time as history marches ever forward. In short, Scheall will be compelled as he goes forward with this line of research if he hopes to operationalize his program in a productive way to focus scientific attention on how alternative institutional arrangement hinder or promote the ability of actors within the system to meet the epistemic burden that the complex coordination of plans places upon them.

The social science is already there to be built upon tracing from Adam Smith to Vernon Smith, Scheall just hasn’t adjudicated it, pursued it, incorporated it, and leveraged it in his own unique way yet. It is there in conceptual form, in experimental evidence, in computer simulations, and in historical narratives. That he doesn’t draw on this, however, is perfectly understandable as he is a philosopher and he had other tasks to accomplish in this book and other demons (real or imagined) to slay. Readers will learn much from a careful study of what he has done. But in future work, following his own call for a radically empirical pro-

gram in an epistemology of politics, I think he will be led away from philosophy and away even from abstract conversations in psychology and theory of mind and appeals to complexity science and back instead to economics and political economy and forced to find a place for Hayek in the context of modern political economy. That quest will lead him to see Hayek's effort in the second half of the 20th century as one developing a genuine institutional economics that will serve as the basis for his restatement of the principles of justice and political economy. And critical to that task is always remembering the distinction between knowledge *about* the social system of exchange and production, and knowledge *within* the social system that brings about the coordination of plans concerning exchange and production.

Scheall's basic insight in *F. A. Hayek and the Epistemology of Politics* is unassailable, however, and for the political economy and social philosophy project to succeed as a living and vibrant research program, theoretical attention at all times must be on the epistemic burden that must be met at each level of analysis.

NOTES

- 1 Scheall draws his line of continuity in Hayek's long career through his early student work in theoretical psychology and his theory of mind, later fully developed in *The Sensory Order* (1952a). I have, of course, noted Hayek's contributions to this field and the influence on his subsequent work, but I have tended to focus on his early work on imputation and the coordination of economic activities through time as the thread that connects his various interests throughout his career. Thus, the point of emphasis if we look at Hayek through my "window" is on Hayek as a social scientist and social theorist, and so works like *The Counter-Revolution of Science* (1952b) become focal text. Those two points of departure alone lead to different interpretative frames in Hayek studies.
- 2 See the discussion in Lewis (2016).
- 3 One avenue that Scheall could have pursued that would potentially link Hayek's theory of mind with Hayek's theory of economy and society would be the theory of expectations. Expectations play a critical role in Hayek's own theory of equilibrium and the coordination of plans through time. The theme of expectations in Hayek has been explored in the work of Butos and Koppl (e.g., 1997).
- 4 The difficulty of institutional transformation was a major theme of my own work in transitional political economy and development economics, and can be seen in various works by Chris Coyne and Peter Leeson. See Boettke (2001), Coyne (2008), and Boettke, Coyne and Leeson (2008). Scheall's (2020, pp. 75-104) critical reflections on the hubris sometimes exhibited by libertarians and classical liberals is an important challenge for those working in the Hayekian tradition to address.

REFERENCES

- Boettke, P. 2001. *Calculation & Coordination: Essays on Socialism and Transitional Political Economy*. New York: Routledge.
- _____. 2018. *F. A. Hayek: Economics, Political Economy, and Social Philosophy*. New York: Palgrave Macmillan.
- Boettke, P., C. Coyne and P. Leeson. 2008. Institutional Stickiness and the New Development Economics. *American Journal of Economics & Sociology*, 67(2): 331-358.
- Butos, W. and R. Koppl. 1997. Varieties of Subjectivism: Keynes and Hayek on Expectations. *History of Political Economy*, 29(2): 327-359.
- Caldwell, B. 2016. F. A. Hayek and the Economic Calculus. *History of Political Economy*, 48(1): 151-180.
- Coyne, C. 2008. *After War: The Political Economy of Exporting Democracy*. Palo Alto: Stanford University Press.
- Hayek, F. A. 1937. Economics and Knowledge. *Economica* 4(13): 33-54.
- _____. 1952a. *The Sensory Order*. Chicago: University of Chicago Press.
- _____. 1952b. [1979] *The Counter-Revolution of Science*. Indianapolis: Liberty Fund.
- Hoover, K. 1984. Two Types of Monetarism. *Journal of Economic Literature*, XXII (March): 58-76.
- Koppl, R. 2018. *Expert Failure*. New York: Cambridge University Press.
- Levy, D. and S. Peart. 2017a. Gordon Tullock's Ill-Fated Appendix: 'Flatland Revisited'. *Constitutional Political Economy*, 28(1): 18-34.
- _____. 2017b. *Escape from Democracy*. New York: Cambridge University Press.

- Levy, D. and S. Peart. 2019. *Towards an Economics of Natural Equals*. New York: Cambridge University Press.
- Lewis, P. 2016. Systems, Structural Properties and Levels of Organisation: The Influence of Ludwig Von Bertalanffy on the Work of F. A. Hayek. *Research in the History of Economic Thought and Methodology*, 34A, 125-159.
- Scheall, S. 2020. *F. A. Hayek and the Epistemology of Politics*. New York: Routledge.