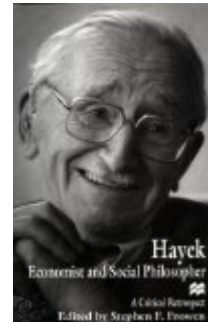


Stephen F. Frowen, ed.. *Hayek: Economist and Social Philosopher: A Critical Retrospect*. New York: St. Martin's Press, 1997. xx + 324 pp. \$59.95, cloth, ISBN 978-0-312-12902-6.



Reviewed by Steven Horwitz

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Reviewing an edited collection is always difficult, mainly because the range of contributions, in both content and quality, is often so vast. In the case at hand, the challenge is even greater because the work of Hayek that serves as the basis for these papers is itself so broad. The papers and comments are mostly by European scholars and are taken from a conference memorializing the first anniversary of Hayek's death. Collected by Stephen Frowen, an Honorary Research Fellow in the Department of Economics at University College London, the papers in *Hayek: Economist and Social Philosopher* span the range of Hayek's contributions, from his work in technical economics, to his social philosophy, to his work on the philosophy of mind. Although the main papers vary in their quality, what emerges from the best of them is a fairly consistent picture of the main themes of Hayek's work, and perceptive suggestions about where work in the Hayekian tradition could go next. I will approach the contents thematically.

The contribution by Barry Smith looks at Hayek's work on theoretical psychology. Hayek's 1952 book *The Sensory Order* has been the subject

of renewed interest in the last few years as Hayek scholars have examined the relationship between his view of the mind and his economics and political philosophy. Smith's paper nicely explicates Hayek's "connectionist" view of the mind and contrasts it with the "symbolic" approach employed by many in artificial intelligence who are attempting to model the human mind. For Hayek, the mind is a spontaneous order, analogous to those of the social world that have long interested him, that emerges out of the particular patterns of neural firings that take place in the brain. Of particular importance in this view is that we are unable to be consciously aware of all that we "know." Several of Hayek's well-known contributions to economics in the 1930s and 40s focused on the role of knowledge in economic theory and as several contributors to this volume note, the roots of that epistemological stance can be found in Hayek's work on the structure of the mind, which began in the early 1920s.

The papers by Manfred Streit and Steve Fleetwood show the relationship between the concern with tacit knowledge and the way in which we

understand social action and social order. Streit concisely lays out the connections between our "constitutional ignorance," the role of spontaneous order, and the view of humans as rule-followers. Our ignorance prevents us from designing social orders, such as a market economy, wholecloth. The same ignorance prevents us from understanding all of the possible causes and consequences of our individual choices. Thus, as individuals we must rely on rules, social conventions and norms as substitutes for detailed explicit knowledge, and, as a society we must rely on broader social rules and institutions to coordinate the choices made by those individuals. Those rules and institutions embody the tacit knowledge of tradition. Streit nicely applies this Hayekian approach to basic issues in competition policy, industrial policy, and the transition from "plan" to market. Of particular interest is his comparison of Hayek to Eucken and the "strong state" view of the German *ordo*-theorists.

Fleetwood's excellent paper argues that Hayek's work on "social rules of conduct" is best understood as an extension of his earlier work on the price system as a telecommunication device. Social norms and institutions supplement the communicative role of prices. Fleetwood is clear to show how these broader institutional considerations derive from Hayek's work on the nature of knowledge and ignorance. We need these non-price institutions because neither our own minds, nor prices alone, are sufficient to ensure economic coordination. Mark Perlman's paper in the volume also argues that Hayek's emphasis on the market as an institution sets him apart from the strict neoclassical tradition and finds him in the company of many American institutionalist economists.

Several of the papers in the volume take up various issues in Hayek's contributions to monetary theory and macroeconomics. Hansjorg Klausinger looks at the evolution in Hayek's thinking on monetary policy by contrasting his early

commitment to "neutral money" to his later proposals for competitive currencies. Klausinger rightly notes that Hayek was always concerned to find that monetary policy which would eliminate inflation, and that his eventual move to competitive currencies was based on his empirical observation that, mostly due to seigniorage considerations, central banks would be unable to resist the temptation to inflate. Klausinger does not point out that even with properly-motivated actors, centrally directing the money supply faces the same sorts of epistemological barriers as Hayek saw confronting attempts at centrally directing economic resources in general. Klausinger also does not ask the question of whether a system of competing currencies would be an effective way of reaching the neutral money policy norm that Hayek so clearly favored in his early work. I would argue that the answer to that question is "yes," if "competitive currencies" is understood as a "free banking" system as found in Selgin (1988) rather than competing, fiat currencies.

G. R. Steele's "Hayek and Keynes on Capital" does a good job in exploring the role that capital played in the Hayek-Keynes debate of the 1930s. In particular, he notes that Keynes's unfamiliarity with the German language tradition blinded him to the Bohm-Bawerkian foundations of Hayek's capital and monetary theory. This point is central, I would argue, to any attempt to reassess those debates. From a Hayekian perspective, Keynes might best be read as taking Wicksell's core insights and yanking them off of their Bohm-Bawerkian foundations.

Ray Richardson on Hayek and the trade unions and Otmar Issing on currency competition both raise the issue of whether particular policy pronouncements or broad historical interpretations one finds in Hayek have sufficient empirical support. Richardson nicely shows how Hayek's wholesale condemnation of the coercive role of trade unions is never backed up with any evidence, and that what evidence does exist suggests

gests that the efficiency-damaging effects of British unions have not been nearly as bad as Hayek seems to suggest. Issing is skeptical of Hayek's call for an end to central bank-produced fiat currency mainly because we have such little knowledge of the likely outcome of a competitive system. Although it is true that Hayek argued for competition precisely on the grounds that we cannot know what the future holds, it is equally true that monetary historians have produced some substantial evidence on the actual workings of competitive monetary systems prior to central banking. A good deal of that evidence shows that such systems were far better behaved than traditionally believed. Issing is either unaware of that work or has chosen to ignore it. What these two papers do point out, however, is that Hayek scholars are going to need to do a better job in convincing economists and policy makers that their theoretical and political claims can be empirically substantiated.

Overall, this collection is a good introduction to the broad themes of Hayek's work. One general complaint is that too many of the papers seem unaware of the numerous contributions to Hayekian scholarship on this side of the Atlantic. As a result, several papers simply reiterate themes that have been pursued, often better, by other writers in recent years. Nonetheless, I would still recommend this book to those looking for a very broad and sympathetically critical exploration of Hayek. More serious Hayek scholars, however, are likely to find the recent edited collections by Birner and Van Zijp (1994), Colonna and Hagemann (1994), and Colonna, Hagemann, and Hamouda (1994) more satisfying.

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