

## Studies on the Abuse and Decline of Reason

### Editor's Introduction

Bruce Caldwell

The Austrian economist Friedrich A. Hayek came to the London School of Economics as a visiting professor in fall of 1931, and secured a permanent position as the Tooke Chair of Economic Science and Statistics the following year. From late 1933 onwards, he toiled fitfully over a big book on capital theory, an endeavour that was finally nearing completion in 1939. On August 27 of that year Hayek wrote a letter to Fritz Machlup, an old friend from university days.<sup>1</sup> He told him about his plans for his next big research project, a wide-ranging historical investigation that would incorporate intellectual history, methodology, and an analysis of social problems, all aimed at shedding light on the consequences of socialism:

A series of case studies should come first, that would have as its starting point certain problems of methodology and especially the relationship between scientific method and social problems, leading to the fundamental scientific principles of economic policy and ultimately to the consequences of socialism. The series should form the basis of a systematic intellectual historical investigation of the fundamental principles of the

---

<sup>1</sup> At the time Machlup was teaching at the University of Buffalo in New York; he and Hayek had corresponded frequently throughout the 1930s about the book on capital theory. For more on this, see the editor's introduction to F.A. Hayek, *The Pure Theory of Capital*, ed. Lawrence H. White, vol. 12 (2007) of *The Collected Works of F.A. Hayek* (Chicago: University of Chicago Press, and London: Routledge), xviii-xxi. For the story of how Hayek came to London, see the editor's introduction to F.A. Hayek, *Contra Keynes and Cambridge: Essays, Correspondence*, ed. Bruce Caldwell, vol. 9 (1995) of *The Collected Works of F.A. Hayek*, pp. 19-21.

social development of the last hundred years (from Saint-Simon to Hitler).<sup>2</sup>

The date on the letter is significant. Four days earlier, the Molotov-Ribbentrop non-aggression pact between Germany and the Soviet Union had been signed. Five days later Hitler would invade Poland. On September 3, England and France would respond by declaring war on Germany. The Second World War had begun.

The war might well have stopped Hayek's grand project in its tracks. Within a week of England's declaration Hayek had drafted a letter to the director general of the British Ministry of Information offering his services to the war effort. Describing himself as an "ex-Austrian," a University professor, and someone who had "for some time" been a British subject (he had in fact been naturalised only the previous year), it was evident that he wanted to make crystal clear both his credentials and his allegiances. Accompanying the letter was a memo, "Some Notes on Propaganda in Germany", that contained a variety of suggestions about how to launch an effective propaganda campaign in the German speaking countries.<sup>3</sup> Among the recommendations was an initiative that would seek to demonstrate to the German people, using German sources, that the principles of liberal democracy now being defended by England and France had also once been embraced by some of the great German poets and writers of the past, a fact that had been effectively written out of

---

<sup>2</sup> Es sollte zuerst eine Serie von Einzelstudien folgen, die von gewissen Problemen der Methodologie und besonders den Beziehungen zwischen naturwissenschaftlicher Methode und sozialen Problemen ausgehend über die wissenschaftlichen Grundlagen der Wirtschaftspolitik zu den Folgen des Sozialismus hinführen würde und die Grundlage einer systematischen geistesgeschichtlichen Untersuchung der Grundlagen der sozialen Entwicklung der letzten hundert Jahre (von Saint Simon zu Hitler) bilden sollte. Letter, F.A. Hayek to Fritz Machlup, August 27, 1939, in the Fritz Machlup papers, box 43, folder 15, Hoover Institution Archives, Stanford University, Calif.

<sup>3</sup> Hayek's memo may be found in the Friedrich A. von Hayek papers, box 61, folders 4, Hoover Institution Archives, Stanford University, Calif. It is reproduced for the first time in the appendix to this volume.

German history since Bismarck's time.<sup>4</sup> Evidently envisioning a rôle for himself in the propaganda effort, Hayek went on to say that "If such 'historical instruction' is to have a chance of success it is absolutely essential that all historical references should be scrupulously and even pedantically correct...".<sup>5</sup>

Hayek would wait until December for his answer from the Ministry of Information. How different his personal history might have been had the director general accepted his offer! But it was not to be; the letter from the Ministry thanked him for his proposals but failed to ask for his assistance. Instead of working for the government as a propagandist, Hayek would begin writing the book that he had described to Machlup just days before the war began.

Only parts of that grand project would ever be finished. The "series of case studies" relating methodology and the scientific method to social problems that Hayek mentioned first would ultimately become his essay, "Scientism and the Study of Society". The intellectual history part would never be completed: only his study of the origins of scientism in France, which carried the title "The Counter-Revolution of Science", plus the short piece "Comte and Hegel", would be published. Hayek got sidetracked, first by the growth in scope of his "Scientism" essay, and then by his decision to transform the last part of his project, the part on "the consequences of socialism", into a separate full length book. That volume would appear in 1944, and would be called *The Road to Serfdom*.

Hayek's larger book would have carried the provocative title, *The Abuse and Decline of Reason*, and that title has been retained for this *Collected Works* edition,

---

<sup>4</sup> In this context it is interesting to note Hayek's remarks in an unpublished interview with W.W. Bartley III, dated "Summer 1984, at St. Blasien": "I was reading Schiller, and Goethe's friends and circle at a very early age. I got my liberalism from the great German poets". This and other unpublished interviews cited in the editor's introduction are used with the permission of Stephen Kresge.

<sup>5</sup> See this volume, appendix, p. \_\_\_\_\_.

with the words “*Studies on*” added to emphasise that the originally envisioned volume was never completed. This introduction will tell the story of Hayek’s greatest unfinished piece of work. It will document the sequence in which the essays were created, explore some of their major themes, and examine some aspects of Hayek’s intellectual history which will help to explain why he made the arguments that he did. In the concluding sections a brief assessment of Hayek’s contribution will be offered, and the significance of the Abuse of Reason project for the later development of his ideas will be traced.

#### The Creation of the Essays

*The studies of which this book is the result have from the beginning been guided by and in the end confirmed the somewhat old-fashioned conviction of the author that it is human ideas which govern the development of human affairs.*<sup>6</sup>

About ten months after his initial letter, in June 1940, Hayek wrote again to Machlup about his new endeavour. His enthusiasm is transparent:

It is a great subject and one could make a great book of it. I believe indeed I have now found an approach to the subject through which one could exercise some real influence. But whether I shall ever be able to write it depends of course not only on whether one survives this but also on the outcome of it all. If things go really badly I shall certainly not be able to continue it here and since I believe that it is really important and the best I can do for the future of mankind, I should then have to try to transfer my activities elsewhere. Since at a later stage it may be difficult to write about it, I have already sent copies of

---

<sup>6</sup> This and subsequent aphorisms are taken from Hayek’s notes on the project, some of which appear to have been for an intended, but never written, preface for the book. The notes may be found in the Hayek papers, box 107, folder 17, Hoover Institution Archives.

the outline of the first part to Haberler and Lipmann (sic)<sup>7</sup> as a basis of any future application to one of the foundations for funds, and I am enclosing another copy with this letter. I am afraid it only gives the historical skeleton round which the main argument is to be developed, but I have not the peace of mind at the present moment to put the outline of the argument itself on paper. The second part would of course be an elaboration of the central argument of my pamphlet on Freedom and the Economic System.<sup>8</sup>

It is clear from this passage that, in addition to being enthusiastic, Hayek also thought that his project was a vitally important one: for a man not normally given to hyperbole, “the best I can do for the future of mankind” is certainly an unexpected phrasing. The dramatic choice of words presumably reflected his response to recent events. The ‘phoney war’ had ended dramatically on May 10, 1940, when Hitler invaded France and the low countries. Hayek was writing only three weeks after the British Expeditionary Force and its allies had barely avoided annihilation or capture on the beaches of Dunkirk. He was worried about whether he would survive the war, and perhaps even about which side would win, and was convinced that this was his best means for making a real contribution to the war effort.

The outline he included shows that he had established where he wanted to go with the book, even to the point of creating titles for the first eighteen chapters. The subtitle and title of Part I reveal his major theme: the abuse and decline of reason was

---

<sup>7</sup> Gottfried Haberler (1901-1995) was another friend from his university days, who by then was on the faculty at Harvard University. Hayek should not have misspelled the name of the American newspaperman and author Walter Lippmann (1889-1974), given that he had attended a colloquium in Paris the year before honoring Lippmann’s book, *An Inquiry into the Principles of the Good Society* (Boston: Little, Brown, 1937). The colloquium led to the establishment of a research center in France dedicated to the revival of liberalism, one that disappeared once the war began. It is plausible that Hayek viewed his book as his own contribution to the cause of defending liberalism.

<sup>8</sup> Letter, F.A. Hayek to Fritz Machlup, June 21, 1940, Machlup papers, box 43, folder 15, Hoover Institution Archives. The full text of the letter is reproduced in the appendix.

caused by hubris, by man's pride in his ability to reason, which in Hayek's mind had been heightened by the rapid advance and multitudinous successes of the natural sciences, and the attempt to apply natural science methods in the social sciences. The letter also indicates that he had already decided that the second part of the book, to be titled "The Totalitarian Nemesis", was to be an expansion of the themes found in his 1939 article "Freedom and the Economic System".<sup>9</sup>

[scanned copy of outline about here]

Hayek worked on the book throughout the summer of 1940, sending carbon copies of chapters to Gottfried Haberler as he finished them. On September 7 the London blitz began. As a result the LSE was fully evacuated for the duration to Peterhouse, Cambridge, and during the coming academic year (1940-1941) Hayek would spend three nights of each week in Cambridge, the other four in his London home in the Hampstead Garden Suburb, his own family having long since been evacuated to Lionel Robbins' country house. Hayek's letter to Machlup of October 13, 1940 gives a taste of what life was like in London, then goes on to detail the progress of his book:

I have, in fact, done more work this summer than ever before in a similar period. After finishing with the proofs of my capital book (which Macmillan is now hesitating to bring out – it is all ready) I have completed five historical

---

<sup>9</sup> There were two versions of "Freedom and the Economic System", one published in 1938, the other in 1939. They are both reproduced in F.A. Hayek, *Socialism and War*, ed. Bruce Caldwell, vol. 10 (1997) of *The Collected Works of F.A. Hayek*, chapters 8 & 9.

chapters of my new book and am now deep in the most difficult first theoretical chapters.<sup>10</sup>

We see here not only Hayek's progress but also how his plan for the volume was beginning to change. The "five historical chapters", chapters two through six on the original outline, contained Hayek's account of "the French Phase", detailing the origins of scientism, which he located in the writings of Henri Saint-Simon, his followers the Saint-Simonians, and the polymath scholar Auguste Comte. Hayek published these chapters the next year, in the February, May, and August, 1941 issues of the LSE journal *Economica* (which he edited!), under the title "The Counter-Revolution of Science". But instead of continuing on with the historical section, Hayek began working on chapter one, which was to be called "Scientism". The only other historical chapter that Hayek would finish was the first chapter of "the German Phase", titled "Comte and Hegel", which was finally published in 1951.<sup>11</sup>

As his letter suggests, Hayek's planned single chapter on "Scientism" had expanded, and he was having difficulties with the topic. It would take him four more years to complete the essay: the first instalment would appear in *Economica* in August 1942, the second in February 1943, and the last, in February 1944. Thus did the single chapter labelled "Scientism" ultimately become a major essay of ten chapters, "Scientism and the Study of Society".

The expanded scope and the inherent difficulties of the material covered in the "Scientism" essay were partly responsible for the slowdown, but it was also due to Hayek's decision to begin focusing on another project. He announced this in his holiday letter to Machlup, begun in December 1940 in Cambridge (where by this time

---

<sup>10</sup> Letter, F.A. Hayek to Fritz Machlup, October 13, 1940, Machlup papers, box 43, folder 15, Hoover Institution Archives. The full text of the letter is reproduced in the appendix.

<sup>11</sup> Hayek apparently used "Comte and Hegel" as his inaugural lecture at the University of Chicago.

Hayek had, with the assistance of John Maynard Keynes, secured rooms at King's College) and finished on New Year's Day 1941 in Tintagel on the Cornish coast: "...at the moment I am mainly concerned with an enlarged and somewhat more popular exposition of the theme of my *Freedom and the Economic System* which, if I finish it, may come out as a sixpence Penguin volume".<sup>12</sup> By the summer Hayek would report that a "much enlarged" version of the pamphlet was "unfortunately growing into a full fledged book".<sup>13</sup> Finally, by October 1941 Hayek told Machlup that he had decided to devote nearly all of his time to what would become *The Road to Serfdom*:

It [the Scientism essay - BJC] is far advanced, but at the moment I am not even getting on with that because I have decided that the applications of it all to our own time, which should some day form volume II of *The Abuse and Decline of Reason*, are more important.... If one cannot fight the Nazis one ought at least fight the ideas which produce Naziism; and although the well-meaning people who are so dangerous have of course no idea of it, the danger which comes from them is none the less serious. The most dangerous people here are a group of socialist scientists and I am just publishing a special attack on them in *Nature* – the famous scientific weekly which in recent years has been one of the main advocates of "planning".<sup>14</sup>

---

<sup>12</sup> Letter, F.A. Hayek to Fritz Machlup, December 14, 1940/January 1, 1941, Machlup papers, box 43, folder 15, Hoover Institution Archives. The full text of the letter is reproduced in the appendix.

<sup>13</sup> Letter, F.A. Hayek to Fritz Machlup, July 31, 1941, Machlup papers, box 43, folder 15, Hoover Institution Archives.

<sup>14</sup> Letter, F.A. Hayek to Fritz Machlup, October 19, 1941, Machlup papers, box 43, folder 15, Hoover Institution Archives. The full text of the letter is reproduced in the appendix. The article in *Nature* that Hayek refers to, titled "Planning, Science, and Freedom", is reprinted in F.A. Hayek, *Socialism and War*, chapter 10. We will learn more about these socialist (mostly natural) scientists later in this introduction.

Hayek's change in course is understandable. He had begun his great book just as Europe was going to war. Western civilisation itself was at stake, and given that the British government would not allow him to participate directly, writing a treatise on how the world had come to such an awful state was to be Hayek's war effort, the best he could do "for the future of mankind". Two years later the prospects for the allies seemed brighter, but a new danger was looming. Hayek increasingly feared that the popular enthusiasm for planning, one that had only increased during the war, would affect post-war policy in England.<sup>15</sup> *The Road to Serfdom* was intended as a counterweight to these trends. Working on it became his first priority, even if it meant delaying his more scholarly treatment of the historical origins and eventual spread of the doctrines that had in his estimation led to the abuse and decline of reason.

The present volume includes an additional chapter, Hayek's famous essay "Individualism: True and False". According to his outline, the two volume work was to have been introduced with this essay, which Hayek had originally titled "The Humility of Individualism". It has accordingly been placed in its intended position as an introduction to the other essays. It is not clear exactly when "Individualism: True and False" was written, but given that it was first delivered as an address in Ireland in December, 1945, it was probably completed sometime after the publication of the "Scientism" and Counter-Revolution" essays.<sup>16</sup>

---

<sup>15</sup> For a more detailed account of Hayek's decision, see the editor's introduction to F.A. Hayek, *The Road to Serfdom: Text and Documents*, ed. Bruce Caldwell, vol. 2 (2007) of *The Collected Works of F.A. Hayek*, pp. 9-15. Hayek expressed his concerns succinctly in a letter to Jacob Viner, in which he wrote "...although I am fairly optimistic about the war, I am by no means so about the peace, or rather about the economic regime that will follow the war". Letter, F.A. Hayek to Jacob Viner, February 1, 1942, Jacob Viner papers, box 13, folder 26, Public Policy Papers, Department of Rare Books and Special Collections, Princeton University Library, Princeton, N.J.

<sup>16</sup> One can never know for sure why Hayek chose the title "Individualism: True and False" for his paper. Two titles that he may have been playing off of were Sidney Webb, *Socialism: True and False* (London: The Fabian Society, 1894), a lecture that Webb gave before the Fabian Society in 1894, and John Dewey, *Individualism, Old and New* (New York: Minton, Balch, and Co., 1930). Alternatively, given his Irish audience, he may well have been responding to passages about true and false

After the war was over, Hayek undertook a number of disparate projects, among them writing *The Sensory Order*, putting together a volume on the correspondence between John Stuart Mill and Harriet Taylor, arranging for the first meeting of the Mont Pèlerin Society, and leaving the LSE for a new job at the Committee on Social Thought at the University of Chicago. In a letter in November 1948 replying to John Nef's invitation to come to Chicago, Hayek reiterated his plan to do further work on *The Abuse and Decline of Reason*.<sup>17</sup> But sometime during the next couple of years he evidently decided to abandon the project, for in 1952 he published *The Counter-Revolution of Science: Studies on the Abuse of Reason*.<sup>18</sup> The book contained all that he had finished of the project: "Scientism", "The Counter-Revolution of Science", and "Comte and Hegel". Hayek's prefaces to the 1952 English and 1959 German editions of that book are included in the appendix of the present volume.

As this history of the creation of the essays makes clear, they were actually written in the reverse order in which they appear in this volume: "Counter-Revolution" was completed first, then "Scientism", then "Individualism: True and False." In the preface to the German edition, Hayek noted that for "the reader who has little taste for abstract discussion", the historical account provided in "Counter-Revolution" makes for easier reading than does "Scientism", so that such readers may wish to start there first.<sup>19</sup>

---

individualism that may be found in Oscar Wilde, "The Soul of Man under Socialism" [1891], reprinted in *The Writings of Oscar Wilde* (New York: Wise, 1931), pp. 12-13.

<sup>17</sup> Letter, F.A. Hayek to John Nef, November 6, 1948, Hayek papers, box 55, folder 1, Hoover Institution Archives.

<sup>18</sup> F.A. Hayek, *The Counter-Revolution of Science: Studies on the Abuse of Reason* (Glencoe, IL: The Free Press, 1952; reprinted, Indianapolis, IN: LibertyPress, 1979).

<sup>19</sup> F.A. Hayek, Preface to the German Edition, this volume, pp. xx-xx. (p. 11).

*What has so far been the greatest achievement of the human mind (the techniques of commanding the forces of nature) applied to society may yet prove the cause of its destruction.*<sup>20</sup>

#### Major Themes of the “Scientism” Essay

The “Scientism” essay does contain some “abstract discussion”, but the main lines of Hayek’s argument are pretty straightforward. Hayek begins by noting that in the 18<sup>th</sup> and early 19<sup>th</sup> centuries those who sought to examine economic and social phenomena scientifically usually followed methods that were dictated by the material under study. As the 19<sup>th</sup> century progressed, however, the term ‘science’ came more and more to be associated with the successes of the physical and biological sciences, with the rigour of their methods and the certainty of their results. A change gradually took place in the social sciences, as the “ambition to imitate Science in its methods rather than its spirit” became a dominant theme.<sup>21</sup> Hayek refers to this “slavish imitation of the method or language of Science” as *scientism*, or as the scientific prejudice, an attitude that he felt was in actual fact profoundly *unscientific*.<sup>22</sup> Scientism involves a prejudice because, even before considering the nature of a subject area, it presumes to know the best way to study it.

Hayek’s next step, accordingly, is to offer a description of the social reality that we seek to understand. The social sciences concern themselves first and foremost with explaining human action. All human action is based on people’s subjective perceptions and beliefs, or what Hayek calls ‘opinions’. Because these opinions determine the actions we seek to explain, they constitute the ‘data’ of the social sciences. What can we say about them?

---

<sup>20</sup> Notes, F.A. Hayek papers, box 107, folder 17, Hoover Institution Archives.

<sup>21</sup> This volume, p. xxx (21).

<sup>22</sup> *Ibid.*, p. xxx (24). As Hayek wrote on one of his notes for the project, “I use scientific because it desires to be but is not scientific”. See Notes, F.A. Hayek papers, box 107, folder 17, Hoover Institution Archives.

First, though each person knows by introspection that opinions drive his own actions, opinions are not observable, only the actions that follow from them are. The fact that we are able to communicate with other people about the world suggests, however, that our minds operate in a similar way. Though the structures of individual minds may be similar, humans have different subjective beliefs: our knowledge “only exists in the dispersed, incomplete, and inconsistent form in which it appears in many individual minds”.<sup>23</sup> And as he indicates with the word “inconsistent,” a further implication of the subjective nature of beliefs is that they may be false. Hayek sums up his discussion of the subject matter of the social sciences with the following words:

...we must start from what men think and mean to do: from the fact that the individuals which compose society are guided in their actions by a classification of things or events according to a system of sense qualities and of concepts which has a common structure and which we know because we, too, are men; and that the concrete knowledge which different individuals possess will differ in important respects. ...Society as we know it is, as it were, built up from the concepts and ideas held by the people; and social phenomena can be recognised by us and have meaning to us only as they are reflected in the minds of men.<sup>24</sup>

Given this description of the nature of social reality, Hayek then outlines the appropriate method for its study. Simply put, the task of the social scientist is to show

---

<sup>23</sup> *Ibid.*, p. xxxx (50). That our beliefs are subjective and knowledge is dispersed is something that Hayek had first asserted in “Economics and Knowledge”. See F.A. Hayek, “Economics and Knowledge”, *Economica*, N.S. vol. 4, Feb. 1937, pp. 33-54, reprinted in F.A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), pp. 33-56. [perhaps note CW edition here]

<sup>24</sup> This volume, p. xxxx (57-58)

how the constitutive opinions of individual agents lead them to create through their actions the more complex structures that constitute the social world. The most interesting structures are those which are unintended: observed regularities that are not the results of anyone's design. Following Carl Menger, Hayek dubs the method by which such larger social phenomena are composed from the interaction of individual elements the *compositive* method.<sup>25</sup>

Hayek provides a simple example of what he means – the explanation of the formation of footpaths. Before a footpath is formed in a forest, each person travelling through makes his own path. But over time certain paths get used more often, and eventually, everyone starts using the same ones. This explanation, Hayek notes, has little to do with our powers of observation, but much to do with our understanding of how human beings act:

...it is not the observation of the actual growth of any particular track, and still less of many, from which this explanation derives its cogency, but from our general knowledge of how we and other people behave in the kind of situation in which the successive people find themselves.... It is the elements of the complex of events which are familiar to us from everyday experience, but it is only by a deliberate effort of directed thought that we come to see the necessary effects of the combination of such actions by many people. We 'understand' the way in which the result we observe can be produced, although we may never be in a position to watch the whole process or to predict its precise course and result.<sup>26</sup>

---

<sup>25</sup> *Ibid.*, p. xxx (67).

<sup>26</sup> *Ibid.*, p. xxx (71).

The homely example gains significance when it is realised that many social and economic phenomena are susceptible to similar sorts of explanations. These include both the sort of institution formation that Menger had described, as well as the processes that underlie the everyday workings of markets:

It makes no difference for our present purpose whether the process extends over a long period of time, as it does in such cases as the evolution of money or the formation of language, or whether it is a process which is constantly repeated anew, as in the case of the formation of prices or the direction of production under competition.<sup>27</sup>

Using the compositive method to explain how individual actions create larger social processes, structures, and institutions, then, is the chief rôle of the social scientist.

Hayek draws a further important conclusion from his discussion. Given the sometimes vast number of elements whose interactions create social structures and institutions, the social scientist will rarely be able to predict precise outcomes: one can accurately describe how a footpath will form, but one typically will not be able to predict its exact position. This leads him to distinguish between explanations that allow predictions and those that only can describe the principle by which a phenomenon is produced. Because of the nature of our materials, ‘explanations of the principle’ and ‘pattern predictions’ are often the best we can do in the social sciences.<sup>28</sup> This fundamental conclusion about the limits of the social sciences is one that Hayek would retain and emphasise throughout his life.

---

<sup>27</sup> *Ibid.*, p. xxxx (71).

<sup>28</sup> *Ibid.*, p. xxxx (73-74).

Having laid out his preferred approach, Hayek then turns to a critique of the various scientific approaches. He identifies three broad types of scientific thought. All apply methods that work well in the natural sciences to the material of the social sciences, and by so doing deny basic aspects of the phenomena under study.

Thus, those who demand a more ‘objectivist’ approach deny the *subjective* nature of the data of the social sciences. Among the proponents Hayek identifies are Auguste Comte, who disparaged the use of introspection; behaviourists of various stripes, all of whom want to restrict their science to the identification of correlations between observable stimuli and behavioral responses; and physicalists like the philosopher Otto Neurath, who insisted that the terms of scientific theories make reference only to observables.<sup>29</sup>

Those who tout ‘collectivism’ deny that the social sciences should start from the opinions of *individual* humans, preferring instead to begin with empirical regularities that exist at the levels of wholes like ‘the economy’ or ‘society’. While Auguste Comte is again cited a major offender, Hayek also discusses those who assert that the collection of massive amounts of statistical data might help us better to understand the relationships existing among social phenomena. While he names no names, his comments seem directed at people like the American institutionalist Wesley Clair Mitchell, and perhaps also at John Maynard Keynes.<sup>30</sup>

Finally, those who advocate ‘historicism’ deny that the social sciences are properly *theoretical* in nature. Hayek deals with two variants of historicism. One sees history as the gradual accumulation of statistics, which ultimately will be used to draw generalisations about society – this view is typically associated with Gustav Schmoller, the leader of the younger German historical school. Another variant is the

---

<sup>29</sup> *Ibid.*, p. xxxx (78).

<sup>30</sup> Regarding Keynes note, for example, Hayek’s comments about the “macroscopic view” on p. xxxx (104).

search for laws of the development of human history. In this camp Hayek places various stage theories and philosophies of history, the “darling vice” of the 19<sup>th</sup> century, and among the guilty are Hegel, Comte, Marx (“particularly Marx”), and later, Werner Sombart and Oswald Spengler.<sup>31</sup> By claiming that various laws determine the development of history, these historicists deny the importance of human intentional action in shaping events – like the collectivists, they seek regularities and laws at the wrong level.

In his closing chapters Hayek details certain detrimental consequences of the scientific worldview. One is the inability of its advocates to grasp the foundational idea that “the independent action of many men can produce coherent wholes, persistent structures of relationships which serve important human purposes without having been designed for that end”.<sup>32</sup> Those who take the scientific view think that if something serves a human purpose, it must have been designed. From this idea, it is but a small step to the even more dangerous view that we possess the ability to refashion social institutions at will. All such views overvalue the power of human reason. By way of contrast, the ‘individualist approach’ recognises the limits of the human mind:

The individualist approach, in awareness of the constitutional limits of the individual mind, attempts to show how man in society is able, by the use of various resultants of the social process, to increase his powers with the help of the knowledge implicit in them and of which he is never aware; it makes us understand that the ‘reason’ which can in any sense be regarded as superior to individual reason does not exist apart from the inter-individual process in

---

<sup>31</sup> *Ibid.*, p. xxxx (130).

<sup>32</sup> *Ibid.*, p. xxxx (141).

which, by means of impersonal media, the knowledge of successive generations and of millions of people living simultaneously is combined and mutually adjusted, and that this process is the only form in which the totality of human knowledge ever exists.<sup>33</sup>

The distinction between the hubris of the scientific approach and the humility of individualism would be a major theme of Hayek's "Individualism: True and False", and would reappear in still later writings as the contrast between constructivist rationalism and the evolutionary way of thinking.

Scientism, then, underpins the ubiquitous call for planning in modern society. It gives rise to the 'engineering point of view', in which all social problems are seen as identical to those faced by engineers, as well as the confidence that large scale social planning can succeed. For Hayek, widespread enthusiasm for a variety of forms of economic planning revealed the pervasiveness of the engineering mentality, and was but a natural consequence of the steady ascendancy of the scientific prejudice.

One can see how *The Road to Serfdom* made for a natural successor to this argument. Those who called for planning recognised that it could be a handmaiden to totalitarianism, as the examples of the Soviet Union and the various fascist experiments made clear. But for the western democracies, the hope was held out that a democratic form planning was also possible, a new system that would fully preserve individual freedom while remedying the failures of the capitalist system that had become so manifest in the years of the Great Depression. Hayek's message in *The Road to Serfdom* was that such a dream was a sham, that a democratic polity was incompatible with a fully planned socialist society, that, as he put it in 1944,

---

<sup>33</sup> *Ibid.*, p. xxx (161).

“socialism can be put into practice only by methods of which most socialists disapprove”.<sup>34</sup> This put the choice fairly starkly: if socialist planning was actually successfully implemented, both liberty and democracy would be lost. Hayek, of course, held out the hope that a reconstructed democratic but *liberal* polity provided a far better alternative.

*...a number of independent experiences and observations which gradually proved to hang together*<sup>35</sup>

### Hayek's Theses in the Context of his Times

In developing his theses about scientism, Hayek was principally responding to the intellectual milieu he experienced on coming to England in the 1930s. But the specific content of his arguments also very much reflected his own personal intellectual development. Hayek was raised within the Austrian school tradition in economics, one that had originated with Carl Menger and had come to international recognition with the ascendancy of Eugen von Böhm-Bawerk and Friedrich von Wieser. He was well-schooled in the particulars of the famous *Methodenstreit*, or debate over methods, that had taken place between the Austrians and the German historical school economists in the generations that preceded him. As a student at the University of Vienna after the end of the First World War, he also had direct experience with Austro-Marxism. Drawing heavily on the ideas of the physicist Ernst Mach, Austro-Marxists blended socialist economics with positivist philosophy of science, in the hope of elucidating what Karl Marx always claimed to have discovered, a truly scientific socialism. Upon finishing his second degree Hayek spent fifteen months in the United States, and this trip also affected the way he viewed

---

<sup>34</sup> F.A. Hayek, *The Road to Serfdom*, p. 159.

<sup>35</sup> Notes, Hayek papers, box 107, folder 17, Hoover Institution Archives.

the world. All of these experiences would colour his response to the situation in which he found himself in interwar Britain.

*The Austrian Background: Historicism, Socialism, and Positivism*

What was the nature of the methodological dispute between the Austrian school economists and their rivals in Germany? At the most basic level, the German historical school economists rejected a theoretical approach to their subject as at best premature, and at worst wholly inappropriate. Noting that each country has its own distinct and unique history, with different social norms, institutions, and cultural values affecting its course of development, they concluded that the abstract theorising that had begun with David Ricardo and was taken to extremes by his followers was simply a mistaken generalisation from the narrow experience of one nation at one point in time, Great Britain since the late 18<sup>th</sup> century. They favoured instead the detailed study of the development of each nation's economic, social, cultural, and ethical institutions; this would then shed light on which policies were most appropriate. Some had stage theories of development, others urged the patient collection of facts, but all derided the classical economists' claim to have discovered a universal theory of economics.

Carl Menger agreed with the German historical school economists that the specific theory of value endorsed by Ricardo and the British classicals – most followed some variant of a cost of production theory – was wrong. But he disagreed that this implied that there could be *no* theoretical approach to economic phenomena. In the *Principles of Economics* he argued that a number of economic practices and institutions – these included the origins of money and exchange, the formation of prices, and the development of various market structures – could be explained as the

unintended consequences of intentional human action. People in pursuing their own interests do not set out to create such institutions, they emerge, rather, as unintended, and in that sense spontaneous, orders.<sup>36</sup> Because he defended a theoretical approach, Menger's book was interpreted by the leader of the younger German historical school, Gustav Schmoller, as simply a continuation of the errors of Ricardo and other classicals. Disputes between two schools led eventually to the *Methodenstreit* – and it was in this debate that the label 'Austrian school of economics', originally meant as a term of derision, was coined by its opponents.

At least in terms of academic appointments, the battle over methods was initially won by the historical school economists. This was in part because the historical school professors also played the crucial role of educating those who would later fill the ranks of the German imperial bureaucracy. It was the age of imperialism, and the leaders of the German Empire (in existence only since 1871) were keen that it be able to compete effectively against its rivals. The professoriate, then, had the additional duty of providing intellectual support for the policies favoured by the empire, a rôle that allowed one of their number to claim that they constituted "the intellectual bodyguard of the Hohenzollerns".<sup>37</sup>

Paradoxically, even as Bismarck was attacking the socialists, his government was adopting many of their programs, the better to preserve order in the face of threats both from within (unrest among the workers, dubbed 'the social problem') and without. Their support of these specific policies earned the conservative German

---

<sup>36</sup> Carl Menger, *Principles of Economics*, translated by James Dingwall and Bert E. Hoselitz (New York and London: New York University Press, 1976). This theme is, of course, very much in evidence in Hayek's "Scientism" essay.

<sup>37</sup> In his outline Hayek referred to them as the *spiritual*, rather than the *intellectual*, bodyguards. The phrase "intellectual bodyguard of the Hohenzollerns" was used by the physiologist Emil du Bois-Reymond, who was also the rector of the University of Berlin and president of the Prussian Academy of Science, in a speech delivered in 1870. See Emil du Bois-Reymond, *A Speech on the German War* (London: Bentley, 1870), p. 31.

historical school professors the label ‘socialists of the chair’, given to them by a liberal newspaperman.

From Hayek’s perspective, there was an unsettling consistency between the methodological and political positions embraced by the historical school economists. Their denial of the efficacy of theory, and their insistence that each country’s unique history dictated the policies that were appropriate, allowed the professors complete flexibility in picking among the policies they chose to support (and, of course, that they would support those policies that best promoted the interests of the empire was all but self-evident). The historical school economists also insisted that theirs was the only truly scientific approach to the study of social phenomena. Seeing this as a chief weakness, in the *Methodenstreit* Menger had launched a methodological attack against his opponents. Hayek would follow a similar strategy in his Abuse of Reason project.

By the turn of the century a new opponent for the Austrian economists, the Austro-Marxists, emerged on the scene. Böhm-Bawerk and Wieser, the ‘second-generation’ Austrian economists, were proponents of the marginalist approach to value theory, one that stood in direct opposition to the cost of production theories of value of the classicals. A prominent defender of one variant of the classical theory was Karl Marx, whose utilisation of a labour theory of value was central to his explanation of the origin of surplus value, itself a key part of his theory of the exploitation of the proletariat. Marxist value theory then became a natural target for the Austrians. After Böhm-Bawerk’s devastating 1896 critique of the third and final

volume of *Das Kapital*, the Austrian economists were evermore identified as the most prominent critics of Marxism.<sup>38</sup>

While Böhm's and others' criticisms of Marxist value theory caused some socialists to abandon the labour theory of value, others rose to its defence, and among them were the Austro-Marxists. This led to a famous debate in Böhm-Bawerk's economics seminar between Böhm-Bawerk and Otto Bauer, the brilliant young leader of the Austro-Marxists who would go on to lead the Austrian Social Democrats after the war. Other seminar participants included the Marxist theoretician Rudolf Hilferding, who had himself published a criticism of Böhm-Bawerk's position on Marx, as well as Joseph Schumpeter and Ludwig von Mises.<sup>39</sup> After participating in these debates on the transformation problem and the Marxian theory of value, the Austrian economists were thoroughly schooled in the nuances of Marxist theory, and indeed defined their own approach at least partly in contradistinction to it.

But the Austrian critique of socialism was ultimately to go far beyond the criticism of its value theory. This was due in part to another seminar participant, Otto Neurath. In the seminar Neurath propounded the doctrine of 'war economy', the idea that the massive central planning that typically characterises an economy in war should be extended into peacetime. Neurath further proposed that money should be abolished, that managers charged with directing the economy should rely instead on 'in natura' calculation, utilising an extensive body of social statistics to plan production and distribution. By the end of the war many others had joined Neurath in proposing alternative socialisation schemes for the reorganisation of society, though few were as radical as his. These proposals ultimately provoked Ludwig von Mises to

---

<sup>38</sup> See Eugen von Böhm-Bawerk, *Karl Marx and the Close of his System* (London: Fisher Unwin, 1898), reprinted in *Karl Marx and the Close of his System and Böhm-Bawerk's Criticism of Marx*, ed. Paul Sweezy (New York: Kelley, 1949; reprinted, 1975), pp. 3-118.

<sup>39</sup> See Rudolf Hilferding, *Böhm-Bawerk's Criticism of Marx*, in *Karl Marx and the Close of his System and Böhm-Bawerk's Criticism of Marx*, pp. 121-196.

write an article and later a book on socialism, thereby beginning the German language socialist calculation debate.<sup>40</sup>

Neurath's writings also strengthened the link in the Austrian mind between socialism and positivism, for in the 1920s he was to become the 'social science expert' of the Vienna Circle. As recent scholarship emphasises, the early days of the logical positivist movement had a distinctly political side, and Neurath played a central rôle in this. In advocating the unity of science, for example, he hoped to enlist all of the sciences to use them to refashion society along socialist lines.<sup>41</sup> He was also clear about the proper approach to the social sciences: "Of all the attempts at creating a strictly scientific unmetaphysical physicalist sociology, Marxism is the most complete".<sup>42</sup> Positivist philosophy of science was therefore always aligned in the minds of the Austrian school economists with socialist politics and economics.

Hayek was exposed to positivist thought as a student, and apparently even entertained the idea of joining the Vienna Circle, but his most intense exposure to the relevant debates doubtless occurred after he began participating in the Mises Circle, that is, directly after his return from America, more of which anon. His friend from student days Felix Kaufmann was a member of both the Mises Circle and the Vienna Circle, and he kept the Mises Circle members apprised of the latter's activities. In the late 1920s Mises was fashioning his own response to the positivists with his theory of human action, so logical positivism was much discussed in the seminar. Though Hayek appears never to have been comfortable with the *a priori* foundations that

---

<sup>40</sup> See Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth", translated by S. Adler, in *Collectivist Economic Planning*, ed. F.A. Hayek (London: George Routledge and Sons, 1935; reprinted, Clifton, N.J.: Kelley, 1975), pp. 87-130; *Socialism: An Economic and Sociological Analysis*, translated by J. Kahane (London: Cape, 1936; reprinted, Indianapolis: LibertyClassics, 1981). Hayek criticises 'in natura' calculation in the "Scientism" essay: see this volume, p. xxx (170).

<sup>41</sup> See the discussions of Neurath in George A. Reisch, *How the Cold War Transformed Philosophy of Science: To the Icy Slopes of Logic* (Cambridge: Cambridge University Press, 2005).

<sup>42</sup> Otto Neurath, "Empirical Sociology: The Scientific Content of History and Political Economy", in *Empiricism and Sociology*, Marie Neurath and Robert S. Cohen, eds (Dordrecht, Holland: D. Reidel, 1973), p. 349.

Mises claimed for his program, he imbibed and fully concurred with the view that the positivists were only pretenders to the mantle of science. And because their radically empiricist approach to science had much in common with the naïve empiricism of the German historical school economists, the arguments against them came naturally to the lips of anyone trained in the Austrian economic tradition.

By the time that Hayek came onto the scene, logical positivism was flourishing, but the battle between the Austrian and German historical schools was pretty much over. Schmoller had died during the war, and the historical school economists had proved of little assistance during that conflict, and even less in the hyperinflation that followed. Their whole approach was, in the eyes of many, discredited. Yet in 1933 Hayek would argue, in his inaugural lecture at the LSE and in a memo he sent to William Beveridge, the Director of the LSE, that their influence was still to be felt. How could that be?

#### *Hayek's American Experience*

Hayek's experiences on his trip to America may help to provide an answer. Hayek left for the States in March 1923, and although he was armed with letters of introduction from Joseph Schumpeter addressed to all the leading American economic theorists, he was disappointed by what he found.<sup>43</sup> Few advances in theory had been made. The one economist that everyone was talking about was the one for whom he had no letter of introduction: Wesley Clair Mitchell.

Mitchell had studied under the iconoclastic and idiosyncratic economist Thorstein Veblen and the pragmatist philosopher John Dewey at the University of Chicago. A dominant figure in the American institutionalist movement, he had

---

<sup>43</sup> F.A. Hayek, "Introduction", in *Money, Capital, and Fluctuations: Early Essays*, ed. Roy McCloughry (Chicago: University of Chicago Press, 1984), p. 2.

published in 1913 a major treatise on business cycles.<sup>44</sup> Mitchell's approach to his subject was radically empirical: rather than start with a theory of the cycle, he gathered historical records on the cyclical movement through time of a wide variety of economic variables to see what sorts of patterns in the timing of their amplitudes and rates of change might emerge. This sort of approach, though reminiscent of that of Schmoller and the German historical school economists, was much more systematic. It was also more useful: unlike his German counterparts, Mitchell had contributed to the war effort by serving as the head of the Price Section of the War Industries Board, where he witnessed firsthand how important the use of statistical data could be for planning the production and distribution of war materials. As a reform-minded progressive, he had hopes that such scientific techniques could be useful to the government in attacking the social problems of the day.

By the time Hayek appeared on the scene, Mitchell was the Director of Research at the newly founded National Bureau of Economic Research, as well as a professor at Columbia University, itself then becoming a hotbed of institutionalist thought.<sup>45</sup> During the 1923-1924 academic year, he taught a class called "Types of Economic Theory" on Tuesday and Thursday afternoons. Since Hayek was spending most of his time in New York, he decided to 'gate-crash' Mitchell's course. It must have been an eye-opener.<sup>46</sup>

---

<sup>44</sup> Wesley Clair Mitchell, *Business Cycles* (Berkeley, CA: University of California Press, 1913).

<sup>45</sup> Among the Columbia economists sympathetic to institutionalism were J. M. Clark, Frederick C. Mills, Robert Hale, Paul Brissenden, and Rexford Tugwell. See Malcolm Rutherford, "Institutional Economics at Columbia University", *History of Political Economy*, vol. 36, Spring 2004, pp. 31-78.

<sup>46</sup> Lectures notes from the 1934-35 class were stenographically recorded by a student: see Wesley Clair Mitchell, *Lecture Notes on Types of Economic Theory*, 2 vols. (New York: Augustus M. Kelley, 1949); cf. Wesley Clair Mitchell, *Types of Economic Theory: From Mercantilism to Institutionalism*, ed. Joseph Dorfman, 2 vols. (New York: Kelley, 1967-1969). The Dorfman edition contains a vast amount of additional material – course outlines, notes from other versions of the lectures, and so on – so is more comprehensive, but the additions also make it more difficult to follow Mitchell's narrative. I have used the 1934-35 notes as the basis for my remarks in the text. Evidently, there may have been some alterations in emphasis in the later lectures from the ones that Hayek would have heard in 1923-24,

The course differed from a more standard class on the history of economic thought in two important ways. First, Mitchell's ambitious goal was to elucidate how changes in all sorts of institutions – political, economic, social and legal – affected both the type of economic theory that developed and its reception. Thus, in explaining the acceptance of Adam Smith's teachings, he painted a picture of a community that had experienced a period of relative peace, one that had turned its attention to bettering its economic condition, one where there was more voluntary co-operation in the pursuit of enterprise and less government interference in local affairs: a community, in short, that was ready to hear Smith's message.<sup>47</sup> In a like manner, David Ricardo's analysis, which was used to support the repeal of the corn laws, was directed at, and promoted the interests of, the emerging capital-owning class.<sup>48</sup> The idea that social institutions and the phase of a country's development help to determine which theories are accepted had evident affinities with the historical school's claim that the stage of a nation's development determines which economic policies it should adopt.

A second unusual characteristic of the course was Mitchell's critical focus on the classical economists' 'theories of human nature'.<sup>49</sup> The ideas of Jeremy Bentham were singled out for intensive scrutiny. Bentham was an advocate of utilitarianism and the leader of the Philosophical Radicals, a group that used utilitarian analysis to press for all manner of reforms: political, legal, educational, even penal. Mitchell

---

though as Rutherford, "Institutional Economics...", p. 64, points out, if anything Mitchell's expressed views had moderated somewhat by the 1930s.

<sup>47</sup> Mitchell, *Lecture Notes*, vol. 1, pp. 58-59.

<sup>48</sup> *Ibid.*, pp. 178-179. Mitchell made the interesting point that, if one considers Ricardo's three classes, neither the landlords nor the workers read that much, which left only the capitalists as an audience!

<sup>49</sup> Mitchell originally called his course "History of Economic Thought and Economic Psychology". He described the goal of his course in a 1912 letter (that is, when he was first developing it) as follows: "What I am trying first is to study the character of the psychological assumptions present tacitly or explicitly in all economic writings and to see how far they are out of line with what we really know about the character of human activity...". Lucy Sprague Mitchell, *Two Lives: The Story of Wesley Clair Mitchell and Myself* (New York: Simon and Schuster, 1952), p. 234; cf. p. 164.

admired Bentham's zeal for reform, praising, for example, his criticisms in *Fragments on Government* of the jurist Sir William Blackstone's *Commentaries on the Laws of England*.<sup>50</sup> At the same time Mitchell was highly critical of Bentham's implicit theory of human nature which, based on hedonistic psychological foundations, portrayed humans as calculating creatures who constantly try to weigh the costs and benefits of their actions. They were not always successful, but the associationist psychology that Bentham also embraced suggested that humans could be taught to make better associations: hence the possibilities for educational and penal reform.<sup>51</sup> Mitchell concluded that the Philosophical Radicals were successful in pushing through certain reforms not because of their theories of human nature (which were, in his estimation, wrong) but because their ideas matched up well with the sorts of changes that powerful interested parties already favoured. Their ideas about human nature were, to Mitchell's chagrin, to persist in the writings of later economists.<sup>52</sup>

If Bentham provided a false theory of human nature, further damage was done by David Ricardo, who provided economists their method of analysis. Mitchell praised Ricardo for his understanding of facts and reforming sympathies, but

---

<sup>50</sup> Whereas Blackstone extolled the virtues of the British constitution, Bentham saw it and the common law tradition as standing in the way of reform. Mitchell's antipathy towards Blackstone's views is evident in his statement that "Blackstone was a man who worshipped the British Constitution with an idolatry that no American lawyer can exceed when he contemplates our own fundamental instrument of government" Mitchell, *Lecture Notes*, vol. 1, p. 92. Mitchell had been a colleague of Charles Beard at the New School in 1919-1922, so was familiar with, if not sympathetic towards, Beard's argument in *An Economic Interpretation of the Constitution of the United States* (New York: Macmillan, 1913) that the principal aim of the founders in creating the American Constitution was to protect the property interests of the upper classes.

<sup>51</sup> The Panopticon, the novel prison that Bentham designed, was thus likened to a mill that would "grind rogues honest, and idle men industrious". Mitchell, *Lecture Notes*, vol. 1, p. 103.

<sup>52</sup> "It is because these notions about human nature have played so large a rôle in the building up of the kind of economic theory that we have had, and to a certain extent still have today, that it seems to me indispensable to dwell at such considerable length as I have done on Bentham's work". Mitchell, *Lecture Notes*, vol. 1, p. 112. Recall that it was Mitchell's teacher Veblen who provided the famous disparaging description of 'rational economic man': "The hedonistic conception of man is that of a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact". Thorstein Veblen, "Why Is Economics Not an Evolutionary Science?", *Quarterly Journal of Economics*, vol. 12, July 1898, p. 389.

criticised his method of providing “abstract intellectual analyses” in which ‘interests’ were substituted for Bentham’s ‘pleasure and pain’ in explaining the determination of distributive shares.<sup>53</sup> When this approach was copied by his less astute followers, who incautiously drew conclusions based on the simplified models, the science of political economy rightfully fell into disrepute. Mitchell lamented that Thomas Robert Malthus and other economists who were more empirically oriented were in general regarded as lesser economists when compared to Ricardo and his tradition.

Mitchell was likewise sceptical about the marginal revolution of the 1870s, in which the classical cost of production theories of value were replaced by a subjective theory of value. Despite changes in terminology (e.g., Alfred Marshall substituting ‘gratification and sacrifice’ for ‘pleasure and pain’), Mitchell argued that the new theory was still based on the same, now discredited, hedonistic psychology of the classicals. Other missteps included transforming the theory of value into a theory of price formation only, where only demand and supply schedules mattered, or into a pure logic of choice relating means to ends.<sup>54</sup> In both of these cases, the psychological foundations that Mitchell viewed as so essential were simply abandoned.

Mitchell, then, was a critic of ‘rational economic man’ and of Ricardo’s theoretical approach, and he saw little difference between the classicals and the marginalists. In each of these opinions, he repeated interpretations that had been offered by Gustav Schmoller some fifty years earlier. And all this, we must assume, was duly noted by the young visitor from Vienna.

Mitchell only hinted at his preferred alternatives in the classroom, but was more forthcoming in such publications as his opening essay for Rexford Tugwell’s 1924 book, *The Trend of Economics*, a paper he would have written just around the

---

<sup>53</sup> Mitchell, *Lecture Notes*, vol. 1, p. 153.

<sup>54</sup> Mitchell, *Lecture Notes*, vol. 2, chapter 19.

time that Hayek was in New York.<sup>55</sup> As a first step, Mitchell recommended that the subjective value theory of the marginalists be replaced by the ‘scientific psychology’ of behaviourism. Once economists embraced such modern psychological underpinnings, the natural next step would be the study of institutions, because institutions affect behaviour: “‘Institutions’ is merely a convenient term for the more important among the widely prevalent, highly standardised social habits. And so it seems that the behaviourist viewpoint will make economic theory more and more a study of economic institutions”.<sup>56</sup> The new focus of study would be, not the imaginary choices of rational economic man, but rather mass behaviour, which is best studied using sophisticated quantitative methods. In the future, economists would collaborate with natural scientists, psychologists, and engineers to build a better society. Behaviourism, the study of institutions, quantitative analysis, and co-operation among like-minded scientists: this was Mitchell’s formula for a new, modern science of economics.

His encounter with the formidable and erudite Mitchell must have had a profound effect on Hayek.<sup>57</sup> We have seen that though Mitchell was a progressive reformer rather than a conservative imperialist, in his attacks on marginalist theory, his recommendation to study institutions, and his emphasis on the use of statistics, he would have reminded Hayek of the German historical school economists. It was doubtless as intriguing as it was disquieting to find that a group whose views had

---

<sup>55</sup> Mitchell, “The Prospects of Economics”, in *The Trend of Economics*, ed. Rexford Tugwell (New York: A. A. Knopf, 1924), pp. 3-34. The idea for the book was born at a session at the American Economic Association meetings in December, 1922 in which Tugwell proposed that a number of economists write papers assessing the discipline. With a few exceptions, the resulting volume read like an institutionalist manifesto.

<sup>56</sup> *Ibid.*, p. 25.

<sup>57</sup> Among the earliest documents in the Hayek collection are his correspondence with Mitchell; see the Hayek papers, box 38, folder 28, Hoover Institution Archives. Stephen Kresge suggests that Hayek’s concern with the implications of time in economic analysis, and possibly also the idea that economics studies complex phenomena, may have come from his interactions with Mitchell. See his introduction to F.A. Hayek, *Good Money, Part I: The New World*, ed. Stephen Kresge, vol. 5 (1999) of *The Collected Works of F. A. Hayek*, pp. 7-8.

dominated German speaking countries since the 1880s but which had begun to go into eclipse were not just still influencing ideas, but indeed were apparently viewed as *avante-garde* in U.S.<sup>58</sup> Similarly, though Mitchell had no sympathy for the Marxism that underlay Neurath's positions, his advocacy of behaviourism (which could be viewed as the psychological analogue of physicalism) and his insistence on the scientific management of society were both reminiscent of arguments that had been made by that Vienna Circle philosopher. What would have been evident to Hayek, then, was that though men like Neurath, Mitchell, and the German historical school economists had very different political views and agendas, they all shared similar views about methods and about the rôle of science in shaping the society to come.<sup>59</sup>

We have focused here on Hayek's important encounter with Mitchell. But the idea that science could and should be used to transform society, sometimes radically, was in fact ubiquitous in the States (as elsewhere), and gaining adherents. Perhaps the most notable mass movement carried the label 'Technocracy', also mentioned by Hayek in his outline. Founded and promoted by the American engineer Howard Scott (1890-1970) following World War I, the Technocracy movement gained popularity in the 1920s and especially during the depression years of the 1930s. Technocracy was promoted by its advocates as the appropriate socioeconomic system in the new world of abundance that had replaced the old world of scarcity. Technological advances bring with them vast increases in productive efficiency, but the old economic system,

---

<sup>58</sup> Hence the first four entries in "The American Phase" of Hayek's outline are to the German influence, Pragmatism, Behaviourism, and Institutionalism. Hayek may have been expressing his reaction to all this when he wrote in one of his notes for his project, "If it does no more than to show how stale is all the current talk which is viewed as modern or progressive, how little there is original or radical in these ideas which were old to our grandfathers but are still rediscovered and rehashed as the latest novelties". Notes, Hayek papers, box 107, folder 17, Hoover Institution Archives.

<sup>59</sup> Nor was he alone in drawing such comparisons: Mitchell himself said of John R. Commons that his "contribution belongs to the institutional type of economics, the type represented in Germany by Sombart, in England by Mr. and Mrs. Webb, in America by Veblen and many of the younger men". Wesley Clair Mitchell, "Commons on the Legal Foundations of Capitalism", *American Economic Review*, vol. 14, June 1924, p. 253. Sombart at the time was viewed as a representative (one of the last) of the historical school. The Webbs will be introduced in a moment.

based on scarcity, creates competition among workers and results in a falling standard of living. Through scientific management the technocratic state would guarantee that the benefits of technology would be shared by all. At its height there were Technocracy ‘sections’ in many American cities – and sometimes multiple sections, because membership in each was capped at fifty individuals.<sup>60</sup>

The impact of Hayek’s trip to America is clear in the work he pursued after he returned to Vienna. In a 1925 paper on U.S. monetary policy he accused American economists of practising “symptomology” (that is, of avoiding theoretical frameworks), and explicitly linked the trend to Mitchell, mentioning his advocacy of institutionalism and of behavioural psychology.<sup>61</sup> Later, in the first chapter of *Monetary Theory and the Trade Cycle*, Hayek both defended a theoretical approach to his subject and offered a scathing attack on the use of ‘empirical studies’ in economics. One of the targets was “the oft-repeated argument that statistical examination of the Trade Cycle should be undertaken without any theoretical prejudice,” a view which he claimed “is always based on self-deception”.<sup>62</sup> Finally, the writings of two other Americans, Waddill Catchings and William Trufant Foster, would provide the impetus for an essay whose writing would eventually bring Hayek to the LSE.<sup>63</sup>

We have yet to mention another way in which the trip to the United States may have affected Hayek. He would later say in interviews that his attraction to

---

<sup>60</sup> The similarities between Technocracy and energetics movements in Germany and elsewhere is noted by Hayek in the “Scientism” essay, this volume, p. xxxx (171).

<sup>61</sup> F.A. Hayek, “Monetary Policy in the United States after the Recovery from the Crisis of 1920”, in *Good Money: Part I*, p. 102.

<sup>62</sup> F. A. Hayek, *Monetary Theory and the Trade Cycle*, translated by N. Kaldor and H. M. Croome (London: Cape, 1933; reprinted, New York: Kelley, 1966), p. 38. A *Collected Works* edition of this title is expected.

<sup>63</sup> F.A. Hayek, “The Paradox of Savings” [1931], reprinted in *Contra Keynes and Cambridge*, pp. 74-120. Lionel Robbins read the German version of this essay, and subsequently invited Hayek to give some lectures at the LSE.

British liberalism was formed while he was in America, when during ‘free evenings’ he would read on his own:

It was then that I discovered my sympathy with the British approach, a country I did not yet know but whose literature increasingly captivated me. It was this experience which, before I had ever set foot on English soil, converted me to a thoroughly English view on moral and political matters, which at once made me feel at home when I later first visited England three and a half years later.... In the sense of that Gladstonian liberalism, I am much more English than the English.<sup>64</sup>

Though there is no direct evidence, it is plausible that it was Mitchell’s class that prompted Hayek to begin learning more about ‘the British approach’. Mitchell had an extensive knowledge of British history – economic, political, social, even technological – and because of his emphasis on Bentham, Ricardo, and their British followers, that knowledge was amply demonstrated in the course. His thorough coverage of Bentham’s and others’ theories of human nature, and his remarks on then current alternatives to associationist psychology, doubtless would also have fascinated Hayek, who had training in psychology. Because Hayek had also trained as a lawyer, Mitchell’s remarks on Blackstone and on British legal history would have further piqued his interest. Finally, Mitchell’s interpretation of, and praise for, John Stuart Mill as a reform-minded socialist who had shown that questions of distribution were subject to human control, may well have started Hayek on his long, and ultimately

---

<sup>64</sup> F.A. Hayek, in W.W. Bartley III, “Inductive Base”, p. 64. Bartley was to have been Hayek’s official biographer, but he died the job unfinished in 1990. Bartley was a student of Karl Popper’s, for whom the ‘inductive base’ was a set of empirical statements about the world. Bartley playfully titled his unpublished set of interviews of Hayek the ‘Inductive Base’: they were the ‘facts’ on which the biography would be built.

highly ambivalent, relationship with ideas of Mill and Harriet Taylor.<sup>65</sup> It was in any event an interpretation, having been popularised by Sidney Webb and the Fabian socialists, that was widely shared in Britain, and therefore one which Hayek would very soon be hearing again.<sup>66</sup>

### *Déjà Vu: Hayek Comes to London*

When Hayek came to London he felt immediately at home in British society, but he also realised that the Liberal England that he had read about in New York was nearly vanished.<sup>67</sup> In its place was a new and widely-shared (at least among the intelligentsia) vision, one that anticipated the creation, with the assistance of science, of a planned socialist society.

It is no small irony that Hayek should win a position at the LSE, for it had been founded in 1895 by Fabian socialists. The Fabians believed in ‘socialism of the ballot box’, that once the masses had been educated to the benefits of socialism, their proposed reforms would easily be put into place through the electoral process. Sidney

---

<sup>65</sup> Mitchell referred to Mill as a “great emancipator”, noting that he was viewed as “a great spiritual leader... who stood for all that was best and finest in the moral aspirations of those who pinned their faith on the use of human intelligence as a means for bettering the doubtful lot of mankind”. Mitchell, *Lecture Notes*, vol. 1, pp. 183, 240. Cf. Mitchell, *Types of Economic Theory*, vol. 1, p. 600: “Those who think of Mill merely as a political economist usually neglect Mill the socialist and enlarge upon technical aspects of his work that he valued less than his discovery that institutional arrangements are subject to social control”.

<sup>66</sup> E.g., “The publication of John Stuart Mill’s ‘Political Economy’ in 1848 marks conveniently the boundary of the old individualist economics. Every edition of Mill’s book became more and more socialistic. After his death the world learnt the personal history, penned by his own hand, of his development from a mere political democrat to a convinced Socialist”. Sidney Webb, “Historic”, in *Fabian Essays in Socialism*, ed. George Bernard Shaw (Garden City: Doubleday, [1889] 1961), p. 80. Similar sentiments may be found in, for example, L.T. Hobhouse, *Liberalism* [1906], reprinted in *Liberalism and Other Writings*, ed. James Meadowcroft (Cambridge: Cambridge University Press, 1994), pp. 51-55; Harold Laski, *The Rise of Liberalism: The Philosophy of a Business Civilisation* (New York and London: Harper and Brothers, 1936), p. 293.

<sup>67</sup> In another unpublished interview, Hayek concluded his description of how he quickly felt himself becoming English after arriving in London with the words, “but the tragedy of it is, I became a nineteenth century Englishman”. F.A. Hayek, in W.W. Bartley III, “Interview, Summer 1984, at St. Blasien”. From his book outline it appears that Hayek was planning to trace the changes that took place in Britain to “Tory Socialism”, which refers to the reform-minded activism associated with the Conservative Prime Minister Benjamin Disraeli, as well as to the nearly contemporaneous emergence of evolutionary thought, Fabian socialism, and English variants of positivism in the mid-to-late nineteenth century.

Webb was so convinced that the truth of socialism would win out that he imposed no ideological litmus tests on those hired to teach at the LSE. He was, however, insistent that (as the LSE prospectus stated) the “special aim” of the School would be “the study and investigation of the concrete facts of industrial life”, a view that gave ‘facts’ pride of place over ‘theory’ in the investigation of social phenomena.<sup>68</sup> In short, Sidney Webb was both a positivist and a socialist.

That socialism was popular should come as no surprise. The economic and political situation was bleak when Hayek arrived in London in the fall of 1931. The Great Depression was already underway and, induced by a financial crisis that afflicted all of Europe, England had that summer abandoned the gold standard. The Labour government collapsed in September, and the new coalition government soon thereafter imposed a protective tariff.<sup>69</sup> The intensity and duration of the Great Depression after the miserable performance of the British economy in the 1920s provided powerful and widely persuasive new economic arguments against capitalism.

Given that virtually all of the intelligentsia agreed that a liberal free market society no longer seemed viable, the logical next question was: what would replace it? Though advocates of full-fledged communism and of fascism were to be found, those who occupied the broad middle ground favoured some form of socialist planning. In the phrase that was then so often employed, socialist planning provided a ‘middle way’ between a failed capitalism and totalitarianisms of the left and right.

Hayek started publicly to attack these ideas in his inaugural lecture, “The Trend of Economic Thinking”, which he delivered on March 1, 1933, soon after

---

<sup>68</sup> For more on this see Ralf Dahrendorf, *LSE: A History of the London School of Economics and Political Science, 1895-1995* (Oxford: Oxford University Press, 1995), p. 20.

<sup>69</sup> Hence the rationale for a chapter entitled “The End of Free Trade” in Hayek’s outline, though he may also have had in mind the debates over free trade that took place in England at the turn of the century.

Adolf Hitler had become Chancellor of Germany.<sup>70</sup> He began his talk by lamenting the current low state of public confidence in the writings of economists. It is of considerable interest that he linked this development to the pernicious influence of the German historical school economists, whose attacks on theory sixty years earlier had undermined confidence that anyone could gain a theoretical understanding of the complex workings of the economic system. This had made it much easier for socialists to put forward bold, but in Hayek's view utopian, plans for a new social order. In his first public address in England, then, Hayek began linking the methodological views of the German historical school economists to the emergence of socialism.

He added another element to the argument when, shortly after delivering the lecture, he sent a memo to the Director of the LSE, William Beveridge, in which he discussed the origins of Nazism in Germany. Here Hayek defended the view that, in terms of intervention in the economy and restrictions on individual liberty, National Socialism had much more in common with socialism than either one had with liberalism.<sup>71</sup> This directly opposed the then common view that Fascism was the last dying gasp of a failed capitalist system.<sup>72</sup>

---

<sup>70</sup> F.A. Hayek, "The Trend of Economic Thinking", in *The Trend of Economic Thinking*, W.W. Bartley III and Stephen Kresge, eds, vol. 3 (1991) of *The Collected Works of F.A. Hayek*, pp. 17-34. It is no accident that Hayek's title echoes that of Rexford Tugwell's 1924 edited book, *The Trend of Economics*.

<sup>71</sup> In the opening paragraph of the memo we find these words: "The persecution of the Marxists, and of democrats in general, tends to obscure the fundamental fact that National Socialism is a genuine socialist movement, whose leading ideas are the final fruit of the anti-liberal tendencies which have been steadily gaining ground in Germany since the later part of the Bismarckian era, and which led the majority of the German intelligentsia first to 'socialism of the chair' and later to Marxism in its social-democratic or communist form". The memo to Beveridge is reproduced in F.A. Hayek, *The Road to Serfdom: Text and Documents*, pp. 245-248. The editor's introduction for the volume, pp. 4-5, provides more background on the Beveridge memo.

<sup>72</sup> See, e.g., Harold Laski, *The Rise of Liberalism*, p. 283, "Fascism, in short, emerges as the institutional technique of capitalism in its phase of contraction".

In the mid-1930s Hayek continued his attack on socialism with the publication of *Collectivist Economic Planning*.<sup>73</sup> The book was aimed at academic economists, and soon provoked a response.<sup>74</sup> But as the decade progressed it became clear that an even more important foe than the socialists of the academy was emerging: this was the popular enthusiasm for planning that had gripped the nation. This posed a more formidable threat because advocates for planning could be found all across the political spectrum.

Political efforts to promote planning were indeed everywhere in evidence. One of the most long-lived and successful groups, named Political and Economic Planning (P.E.P.), had formed in March 1931, even before the collapse of sterling and of the Labour government. In addition to a bi-weekly broadsheet, P.E.P. published hefty reports on basic industries like coal, cotton, iron and steel, and electricity, as well as on such likely subjects as housing, international trade, and the social and health services. A National Peace Congress held in Oxford in 1933 had brought together leaders from all walks of life, from conservatives to socialists to trade union leaders, and ultimately led to the formation of the group Next Five Years in 1934. In their plan of action, *The Next Five Years, An Essay in Political Agreement*, the group called for nationalisation of the mining, transportation and electricity industries. The Popular Front and the People's Front, two coalitions formed in opposition to fascism, also drew on a wide range of the public. In 1938 future Prime Minister (but then the conservative MP from Stockton-on-Tees) Harold Macmillan would publish *The*

---

<sup>73</sup> Hayek, ed. *Collectivist Economic Planning*. Hayek's two essays are reprinted in F.A. Hayek, *Socialism and War*, chapters 1 and 2.

<sup>74</sup> E.g., Oskar Lange, "On the Economic Theory of Socialism", in *On the Economic Theory of Socialism*, ed. Benjamin E. Lippincott (Minneapolis: University of Minnesota Press, 1938; reprinted, New York: McGraw Hill, 1956), pp. 57-143. Lange's piece was originally published in two parts in the journal *Review of Economic Studies* in 1936 and 1937.

*Middle Way*, in which extensive control of the economy was advocated. Few could resist the siren call.<sup>75</sup>

Evidence for Hayek's thesis that this kind of 'planning mentality' was naturally linked to the scientific impulse was also plentiful in inter-war Britain. For some, like Sidney and Beatrice Webb, the model of how science was to be pursued was provided by the Soviet Union. Praising the "Cult of Science" that they found when they visited there, the Webbs reported that

...the administrators in the Moscow Kremlin genuinely believe in their professed faith in science. No vested interests hinder them from basing their decisions and their policy on the best science they can obtain.... The whole community is eager for new knowledge.<sup>76</sup>

The Webbs were not unique in their enthusiasm for the Soviet model. In July 1931 the International Congress of the History of Science and Technology was held at the Science Museum in London. Organised by British academics Lancelot Hogben and Joseph Needham, it was attended by a Soviet delegation led by Nikolai Bukharin. The program became a road show to showcase Soviet science and the Marxist interpretation of the history of science.

The final ingredient – the active promotion of the application of methods that had succeeded in the natural sciences to the more backwards social sciences – was provided by an assortment of British natural scientists whom Hayek would dub the

---

<sup>75</sup> Liberty and Democratic Leadership, *The Next Five Years: An Essay in Political Agreement* (London: Macmillan, 1937); Harold Macmillan, *The Middle Way: A Study of the Problem of Economic and Social Progress in a Free and Democratic Society* (London: Macmillan, 1938). For more on the period, see Arthur Marwick, "Middle Opinion in the Thirties: Planning, Progress and Political 'Agreement'", *English Historical Review*, vol. 79, April 1964, pp. 285-298.

<sup>76</sup> Sidney and Beatrice Webb, *Soviet Communism: A New Civilisation*, 2<sup>nd</sup> ed. (London: Longmans, Green, 1937), p. 1133.

‘men of science’.<sup>77</sup> One of their principal claims was that science could no longer be effectively harnessed to work for the social good in a mature capitalist society in which monopolistic firms suppressed inventions to keep profits high, and the cyclical crises of capitalism led to under-investment in new research and technology. Were science itself managed and planned, however, such distorting effects of late capitalism could be avoided.

One of the leaders of the movement was the Cambridge-trained physicist J.D. Bernal, who in *The Social Function of Science* contrasted a somber account of science under capitalism with a utopian vision of what a properly planned science might look like.<sup>78</sup> Another was the Cambridge biochemist and geneticist, J.B.S. Haldane, a brilliant public speaker and one of the most effective popular science writers of all time. Haldane was also the Chairman of the Board of *The Daily Worker*, served on the editorial boards of other Marxist and Communist journals, and finally became a member of the Communist Party of Great Britain in 1942. Others included the mathematician Hyman Levy, who through a book series and a set of BBC broadcasts argued that science properly conceived is an agent of social change; the social biologist Lancelot Hogben, who helped organise the 1931 conference; and the physicist P.M.S. Blackett, who provided the closing essay for *The Frustration of Science*, an essay whose main theme was that scientific advance would be frustrated so long as the capitalist system was maintained.<sup>79</sup> As an historian of the movement

---

<sup>77</sup> As Hayek would later write to Michael Polanyi, “I attach very great importance to these pseudo-scientific arguments on social organisation being effectively met and I am getting more and more alarmed by the effect of the propaganda of the Haldanes, Hogbens, Needhams, etc. etc.” Letter, F.A. Hayek to Michael Polanyi, July 1, 1941, Michael Polanyi papers, box 4, folder 7, Special Collections Research Center, University of Chicago Library. See also this introduction, footnote 14.

<sup>78</sup> J. D. Bernal, *The Social Functions of Science*, 2<sup>nd</sup> corrected ed. (London: Routledge, 1940). For a detailed critique of Bernal’s book see Michael Polanyi, “Rights and Duties of Science”, in *The Contempt of Freedom: The Russian Experiment and After* (London: Watts, 1940; reprinted, New York: Arno, 1975), pp. 1-26. – Ed.]

<sup>79</sup> Blackett’s concluding lines were these: “I believe that there are only two ways to go, and the way we now seem to be starting leads to Fascism... I believe that the only other way is complete Socialism.

summarised, “no left-wing movement ever became quite so obsessional about the scientific road to socialism as the one in Britain”.<sup>80</sup>

Hayek began focusing on the scientism of his socialist opponents in his 1936 review of the Webbs’ book on the Soviet Union, writing that it is “probably true that Soviet Communism approaches more closely than anything we have yet seen to that synthetic, scientific civilisation which appealed to the peculiar brand of late nineteenth-century rationalism of which the authors are among the most distinguished exponents”.<sup>81</sup> By 1939, in the second version of “Freedom and the Economic System”, he would write, “It would be interesting, but it is not possible within the space available, to show how this belief [i.e., the demand for planning – BJC] is largely due to the intrusion into the discussion of social problems of the preconceptions of the pure scientist and the engineer, which have dominated the outlook of the educated man during the past hundred years”.<sup>82</sup> This would finally become the dominating theme of his Abuse of Reason project.

\* \* \*

Hayek’s experience, then, was that though (as the historical school economists had always insisted!) each nation had its own unique historical evolution, certain

---

Socialism will want all the science it can get to produce the greatest possible wealth. Scientists have not perhaps very long to make up their minds on which side they stand”, P. M. S. Blackett, “The Frustration of Science”, in Sir Daniel Hall and others, *The Frustration of Science* (London: Allen and Unwin, 1935; reprinted, New York: Arno Press, 1975), p. 144. For his part, Hogben apparently despised the ideas of his economist colleagues at the LSE: in a letter to Director Beveridge he described “the Hayek-Robbins circus” as “the last stronghold of the most ultra-individualist metaphysical nonsense masquerading as economic science west of Vienna”. Lancelot Hogben, quoted in Dahrendorf, *LSE*, p. 262.

<sup>80</sup> Gary Werskey, *The Visible College: The Collective Biography of British Scientific Socialists of the 1930s* (New York: Holt, Rinehart and Winston, 1978), p. 178.

<sup>81</sup> F.A. Hayek, “A ‘Scientific’ Civilisation: The Webbs on Soviet Communism”, *The Times* (London), Sunday, January 5, 1936, p. 11. Hayek’s review is reprinted in Hayek, *Socialism and War*, pp. 239-242.

<sup>82</sup> Hayek, “Freedom and the Economic System”, p. 197.

recurrent themes were evident in the thought of the intelligentsia and of the scientific elite of western Europe, Britain and the United States during the inter-war years, themes that had begun to filter into public discourse at large. A key assumption was that the failures of old-style liberalism were irreversible: that in a world of large scale production, cartels, and monopoly capitalism, one could no longer depend on the forces of competition to constrain the power of big business; that in a world of cyclical crises of enduring length, the notion of self-stabilising market forces seemed demonstrably false. This was everywhere taken to imply that planning of some sort, with proposals ranging from piece-meal intervention to full-fledged nationalisation to the Technocratic vision, was necessary to rationalise production and distribution decisions in the new age of plenty. It was next observed that our knowledge of social processes and phenomena had lagged far behind the sorts of knowledge produced in the natural sciences, with blame again placed (especially by the natural scientists of Britain) at capitalism's door. In the new epoch that was at hand, however, scientists and engineers would play an integral rôle, both in facilitating the transition to the new planned society and in providing the expertise to make it all work. Finally, the communist and fascist 'experiments' that had taken place in Russia and on the continent coupled with the depth and intensity of the Great Depression had created a dramatic sense of urgency.

It was evident that people like Neurath, Mitchell and the Webbs differed rather radically from one another politically, spanning the spectrum from Marxism to Fabian socialism to American progressivism. That they could so differ about politics but still all agree that planning was the best hope for constructing a world in which freedom and prosperity could co-exist was Hayek's whole point. No matter where they started

from or where they hoped to go, ‘planning for freedom’ and ‘freedom under planning’ were the slogans of progressive intellectuals everywhere.<sup>83</sup>

From Hayek’s perspective, the idea that individual freedom was compatible with a fully planned society was logically flawed. The notions that science itself could be planned, and that such a science would permit the rationalisation of society, were further evidence of the hubris of reason. Hayek’s project became to show how such ideas got started, and how had they become so well-accepted everywhere.

We do not know when Hayek finally conceived the plan to trace the dual origins of socialism and scientism back to the writings of Saint-Simon. He justified his starting point in the notes he made for the project as follows: “The reason why I begin so late is that though all these attitudes can already be found in the 18<sup>th</sup> century, they are not yet systematised or, for that reason, systematically developed”.<sup>84</sup> That Saint-Simon was the logical starting point would have been reinforced by writers like Emile Durkheim (whom rather incredibly he does not cite), who had argued that Saint-Simon, rather than Comte, was the true father of positivism, and also a founder of modern socialism.<sup>85</sup> Elie Halévy, whom he does cite, might also be mentioned: in his two masterful essays on the economic doctrines of Saint-Simon and the Saint-Simonians that great French historian concluded that their ideas are still influential

---

<sup>83</sup> Thus Barbara Wootton’s book, offered in reply to Hayek’s *The Road to Serfdom*, would carry the title *Freedom under Planning* (Chapel Hill, N.C.: University of North Carolina Press, 1945). For his part, Wesley Clair Mitchell served on Roosevelt’s National Planning Board (later called the National Resources Board). Writing in the early 1950s, his wife would note that Mitchell “had faith in the principle of ‘planning’ provided it was based on factual knowledge of the situations planned for and of the consequences that would result in other related situations”. Mitchell, *Two Lives*, p. 367.

<sup>84</sup> Notes, Hayek papers, box 107, folder 17, Hoover Institution Archives.

<sup>85</sup> See Emile Durkheim, *Socialism and Saint-Simon*, ed. Alvin Gouldner, translated by Charlotte Sattler (Yellow Springs, Ohio: Antioch Press, 1958), pp. 104-105. The latter is a translation of lectures given by Durkheim and first published in 1928 as *Le socialisme*, edited by Marcel Mauss. Hayek also inexplicably did not cite Max Weber, though he clearly made use of the latter’s criticisms of historicism in Chapter 7. This brings to mind the barb, attributed to the Popperian philosopher, Hayek biographer, and first General Editor of *The Collected Works of F.A. Hayek* Bill Bartley, that Hayek was less than generous to his predecessors, and Popper less than generous to his followers.

today, and not just among socialists.<sup>86</sup> As he began examining in depth the writings of men like Condorcet, Saint-Simon and Comte, Hayek saw that they, like he, lived in extraordinary times, and that many of their responses rather eerily mimicked those of others in his own day. The germ of a book was born, one that he would tell his friend Fritz Machlup about a few days before the start of the war.

Hayek's chief purpose in undertaking the *Abuse and Decline of Reason* project was to show the origins of ideas that he thought were leading us astray, and to criticise them.<sup>87</sup> But in the longer run, it is clear that criticism was not his only goal; he ultimately sought also to offer an alternative to the planned society. In his original formulation for his book, the hubris of reason was to be contrasted to the humility of individualism. By 1945 he would contrast the 'false' individualism of the French enlightenment philosophers with the 'true' individualism of such Scottish enlightenment figures as Adam Ferguson, Josiah Tucker, David Hume, and Adam Smith. In his later work, the writings of these scholars (together with those of such disparate thinkers as Edmund Burke, Alexis de Tocqueville, and Lord Acton) would provide the intellectual underpinnings of his effort to create a liberal philosophy for the twentieth century, and beyond.

*...describing the spirit of an epoch by the examples of particular persons*<sup>88</sup>

### How Well Have Hayek's Ideas Stood Up?

---

<sup>86</sup> Elie Halévy, *L'ère des tyrannies: études sur le socialisme et la guerre* (Paris: Librairie Gallimard, 1938), translated as *The Era of Tyrannies*, trans. by R.K. Webb (New York: NYU Press, 1965), pp. 99-104. Hayek published a translation of a discussion piece by Halévy in the same issue of *Economica* that the first instalment of his own "Counter-Revolution" article appeared. There Halévy argued, as Hayek would, that "Socialism, in its original form, is neither liberal nor democratic, but stands for an organised and hierarchical society. This is especially true of Saint-Simonian Socialism". See Elie Halévy, "The Era of Tyrannies", translated by May Wallas, *Economica N.S.*, vol. 8 (February 1941), pp. 77-93.

<sup>87</sup> As he himself put it in the penultimate sentence of his final chapter, "it is our special duty to recognise the currents of thought which still operate in public opinion, to examine their significance, and, if necessary, to refute them". See chapter 17, p. \_\_\_\_\_.

<sup>88</sup> Notes, Hayek papers, box 107, folder 17, Hoover Institution Archives.

Thus far we have traced the probable origins of Hayek's ideas, ideas that, when seen within the context of his times, appear both understandable and reasonable. But other questions may be raised about his theses. In particular, we will inquire here about the adequacy of his historical account, his changing definition of 'scientism', and finally, the extent to which his claims have any continuing resonance today.

### *Hayek's Historical Account*

Let us begin with "Counter-Revolution", and consider only the sections he actually completed, that is, his historical treatment of the joint appearance of scientism and socialism in the writings of Saint-Simon and his followers. It is evident, in the first instance, that Hayek did a meticulous job in his research. His footnotes indicate that he read nearly everything that was then available in German, English, and French about Saint-Simon, Comte, and their followers, including among his primary sources the forty volumes that comprise the collected works of Saint-Simon and Barthélemy Prosper Enfantin, and the multiple volumes of Comte's two major works, the *Cours de philosophie positive* and the *Système de politique positive*.<sup>89</sup> He appears to have been relentless in trying to track down sources. Early on in the project he wrote to William Rappard, imploring him to send him some titles from Switzerland, and later he would complain to Machlup about not being able to get all

---

<sup>89</sup> *Oeuvres de Saint-Simon et d'Enfantin* (Paris: E. Dentu, 1865–78); Auguste Comte, *Cours de philosophie positive*, 6 vols. (Paris: Bachelier, 1830-1842); *Système de politique positive*, 4 vols. (Paris: L. Mathias, 1851-1854). As will be evident in his recounting of their content, it is a testimony to Hayek's scholarly self-discipline and stamina that he was actually capable of working through these volumes. His acute observation at the end of chapter 16, p. \_\_\_\_\_, that, "Why this influence of Comte should so frequently have been much more effective in an indirect manner, those who have attempted to study his work will have no difficulty in understanding", reveals considerable self-restraint. It is perhaps understandable, too, that after having plowed through the French writers Hayek would find the next step too much to take: in an interview he said he stopped working on the historical account because "the next historical chapter would have had to deal with Hegel and Marx, and I couldn't stand then one more diving into that dreadful stuff". F.A. Hayek, "Nobel-Prize Winning Economist", ed. Armen Alchian. Transcript of an interview conducted in 1978 under the auspices of the Oral History Program, University Library, UCLA, 1983. Oral History transcript no. 300/224, Department of Special Collections, Charles E. Young Research Library, UCLA, p. 279. For more on his reaction to Hegel, see his comments in chapter 17, p. \_\_\_\_\_.

the books that he needed.<sup>90</sup> His determination in this regard is demonstrated by a list (discovered among his papers relating to the project) of twenty-five books and two journals that was headed, “All these works seem not to be in the libraries of London or Cambridge”.

What about the results of his efforts? At least one very discriminating contemporary reader was generous with his praise. The eminent economic theorist and historian of thought Jacob Viner wrote to Hayek as follows, “I have just finished reading your ‘The Counter-Revolution of Science’ and want to tell you how much I enjoyed it. Most of the contents were wholly new to me, and you have handled a great mass of difficult material in masterly manner”.<sup>91</sup> Viner went on to ask for an offprint to give to a colleague who was working on the history of ideas: “I am lending him my copy to read, but he would very much like one to keep”.<sup>92</sup> Aside from specialists in the period, few would differ from Viner’s opinion that the essays contained much that was “wholly new” to them – and one suspects that this would be even more true today, when attention to the history of ideas has waned. As an added bonus, the story is engagingly told. When one considers finally that this was Hayek’s first foray into intellectual history, his efforts must surely be judged a success.

It is also probably appropriate to point out that Hayek’s decision to begin his account with Saint-Simon would have made sense to readers of his own day, if only because of the startling number of similarities between the days of Saint-Simon and

---

<sup>90</sup> Letter, Hayek to Rappard, December 12, 1940, William Rappard papers, J.I. 149, 1977/135, box 23, Swiss Federal Archive, Bern; Letters, Hayek to Machlup, April 7, 1941 and October 19, 1941, Machlup papers, box 43, folder 15, Hoover Institution Archives. The October 19, 1941 letter is reproduced in the appendix to this volume.

<sup>91</sup> Letter, Jacob Viner to F.A. Hayek, December 7, 1941, Jacob Viner papers, box 13, folder 26, Public Policy Papers, Department of Rare Books and Special Collections, Princeton University Library, Princeton, N.J.

<sup>92</sup> *Ibid.*

Comte and those of their own.<sup>93</sup> The huge economic, social, political, juridical, and cultural transformations that the French Revolution, Napoleonic Empire, and the Restoration had produced created a generation longing for order and stability. World War I, the communist and fascist revolutions, and the Great Depression had had a similar effect on Hayek's own generation. In search of a new way forward, advocates of liberalism and of a nascent socialism (both of whom opposed the royalist and Catholic reactions) had contended with each other in France and elsewhere in the 1820s and 1830s, just as liberals like Hayek sought to compete with the socialists of his day to provide a path that would avoid the horrors of communism and fascism. In both periods there existed a distinct 'spirit of the age', the widespread feeling that these were momentous times, that historic changes in society were in the offing.<sup>94</sup> There were other more specific similarities.<sup>95</sup> Saint-Simon's proposal for an encyclopedia of scientific knowledge anticipated Otto Neurath's plan for an 'encyclopedia of unified science'. The Saint-Simonian theory of art, which Léon Halévy (Elie Halévy's grandfather!) among others had developed, were echoed in the Soviet realism of Lenin and Stalin. Hayek even claimed to have seen certain similarities in attitude when he compared the words and the personal descriptions of the earlier writers against the writings and behaviour of some of his peers.<sup>96</sup>

---

<sup>93</sup> As Harold Laski, *The Rise of Liberalism*, p. 282, put it: "To understand our own epoch, in short, we must think ourselves back either to the epoch of the Reformation or to the period of the French Revolution".

<sup>94</sup> The 'Spirit of the Age' was the title of a collection of essays written by John Stuart Mill for the *Examiner* in 1831. These were reprinted as John Stuart Mill, *The Spirit of the Age* (Chicago: University of Chicago Press, 1942), and Hayek provided an introductory essay for the book, titled "John Stuart Mill at the Age of Twenty-Five". Hayek uses the phrase at the beginning of chapter 9 of the "Scientism" essay, where he says that the demand for the conscious control of social processes "expresses perhaps more clearly than any other of its clichés the peculiar spirit of the age". See this volume, p. xxx [153]

<sup>95</sup> Some of these are explicitly mentioned by Hayek in chapter 12, section 3, p. \_\_\_\_.

<sup>96</sup> "The Saint-Simonians seemed to me such a beautiful illustration of the kind of attitude I found in the Vienna Circle... the similarity between Carnap and some of these people was amazing". F.A. Hayek, in an unpublished interview by W.W. Bartley III, Freiburg, March 28, 1984. In the unpublished interview with Bartley dated "Summer 1984, at St. Blasien", Hayek said that J.D. Bernal "became to me

Hayek sought to write a very specific type of historical account. His goal was to locate the origins of certain fundamental ideas, and ultimately to make an argument about the effects of these ideas on later generations. His was history with a point. He did not provide, nor did he aim to provide, what might be called a ‘thick’ historical description of the periods he covered.<sup>97</sup> Hayek’s illustrative approach to history may not be to everyone’s taste, though some, at least, have been prepared to defend it, and it was in any event a common approach among economists writing about the history of ideas.<sup>98</sup>

In his historical reconstruction, Hayek accordingly concentrated on certain key episodes that best illustrated his themes. In both its broad outlines – for example, the mutual rise of socialism and positivism in French writings<sup>99</sup> – as well as in his more specific claims, what he wrote was certainly accurate, usually uncontroversial, and always well-documented. At times he broke new ground, as with his suggestion that the impact of the ideas of the Saint-Simonians on the Young Hegelians was an under-examined area that was ripe for further study.<sup>100</sup>

But it is also evident that, when one undertakes this sort of history, it is inevitable that certain interpretations though not technically incorrect will end up being somewhat one-sided when considered in the light of more full-blown historical

---

representative of a new view, which I tried to analyse in ‘The Counter-Revolution of Science’, and that was so dominating” in Cambridge.

<sup>97</sup> Thus in his notes Hayek stated, “We are concerned entirely with the history of ideas... the men only as representative figures in whose ideas manifest themselves but shall neither attempt to discuss systems of thought of individuals nor do we mean to assert that ideas operated only through them”. Notes, Hayek papers, box 107, folder 17, Hoover Institution Archives.

<sup>98</sup> For a defense of the approach, see, e.g., R.K. Webb, the translator of Elie Halévy’s *The Era of Tyrannies*, who said in his preface to the book, p. xiii, that “Halévy’s work is conclusive justification for the centrality of thesis and argument in historical writing”. Hayek’s approach shared common elements with those of Schmoller and Mitchell in their explanations of the history of their discipline, and with that of Sidney Webb when he traced the rise of British socialism.

<sup>99</sup> This was a view that had been established, for example, by Durkheim in his 1928 lectures. See Durkheim, *Socialism and Saint-Simon*.

<sup>100</sup> For a recent work along these lines, see Warren Breckman, *Marx, the Young Hegelians, and the Origins of Radical Social Theory: Dethroning the Self* (Cambridge: Cambridge University Press, 1999), especially chapters 4 and 5.

accounts. For example, in an effort to show the origins of the scientific prejudice in the works of Saint-Simon, the Saint-Simonians, and Comte, Hayek glosses over the intense rivalry that existed between Comte and the Saint-Simonians in the late 1820s, mentioning only in passing their competing lectures of 1828 and 1829. This fascinating and complex episode may help to explain (at least in part) the latter group's strange decision to make themselves over into a religious cult, as well as some of the new directions that Comte took in his later work.<sup>101</sup> The rivalry also helps to explain why the Saint-Simonians specifically sought to attract students from the *Ecole Polytechnique*, who were seen by them as falling under the influence of Comte, which was an important part of Hayek's story.

In a like manner, the Marquis de Condorcet is chiefly portrayed as the quintessential enlightenment philosopher in whose final book, the *Equisse*, "the unbounded optimism of the age found its last and greatest expression".<sup>102</sup> Now it is certainly true that Condorcet embraced what was, as one historian put it, "in effect, a technocratic creed: the creed of men confident in their expertise, easy in the tradition of power, convinced that the problems of politics are susceptible of rational answers and systematic solutions", and that he was accordingly viewed as a precursor by both Saint-Simon and Comte.<sup>103</sup> But it is equally evident that Condorcet differed from them in many fundamental ways.<sup>104</sup> Hayek was careful to distinguish the early from the late Condorcet in his own account, and also to suggest that later writers often misinterpreted him, so he was not unfair in his portrayal. Still, one would never guess

---

<sup>101</sup> For a thorough exploration of the episode, see Mary Pickering, "Auguste Comte and the Saint-Simonians", *French Historical Studies*, vol. 18, Spring 1993, pp. 211-236.

<sup>102</sup> Hayek, this volume, chapter 11, p. xxxx [192].

<sup>103</sup> Keith Michael Baker, *Condorcet: From Natural Philosophy to Social Mathematics* (Chicago and London: University of Chicago Press, 1975), p. 57.

<sup>104</sup> Throughout his book Baker portrays Condorcet as a theorist of liberal democracy. In chapter 6 he also plausibly suggests that the *Equisse*, completed by Condorcet in 1793 but amended while he was in hiding from the Revolutionary authorities in the early months of 1794, may well have been an expression of a desperate man's hope for the future rather than a prediction of what was to come, no matter how the piece may have been interpreted by later generations.

from it that Condorcet had also influenced the Ideologues, or that his widowed spouse would run a salon that attracted many French liberals, or that she in 1798 would provide the French translation of Adam Smith's *The Theory of Moral Sentiments*.

In short, Hayek does not always provide the full historical background that lies behind the episodes he discusses, and some of the figures he portrays come across as somewhat one-dimensional. One reason for this might be that the essays began as journal articles, published in a journal of which Hayek was the editor: under the circumstances, it would have taken considerable arrogance to enlarge them much beyond their current size. But even more fundamentally, Hayek's goal was to tell a story about the origins of certain ideas. His account as it stands is a coherent and, indeed, a compelling one. Whether the benefits of adding substantially more detail would have outweighed the costs is not the sort of counterfactual that is likely to be of much use.

One final aspect of Hayek's historical narrative must be addressed. It is one thing to point out the origins of certain ideas, or to note similarities between the ideas of different men who are separated in time. It is quite another to speak of influence. Sometimes lines of influence are not so difficult to establish: for example, the influence of positivism and of the Saint-Simonians on John Stuart Mill had been identified by Mill himself in his *Autobiography*, so Hayek made use of this in his narrative. But in other circumstances it is difficult, if not impossible, to do.

Hayek was fully aware of the problem. He recognised, for example, that though it might be easy enough to find similarities between the ideas of Auguste Comte and Friedrich Hegel, and to document the scholarly consensus regarding the existence of such similarities, establishing whether either one had actually influenced

the other was problematical.<sup>105</sup> This is why Hayek stated at the end of his chapter “Comte and His Successors” that “The tracing of influences is the most treacherous ground in the history of thought”.<sup>106</sup> Any competent intellectual historian would immediately assent, and indeed, one may rightly wonder whether his recognition of this difficulty may have been another reason why Hayek decided not to carry on with his historical account.<sup>107</sup>

### *Hayek’s Definition of Scientism*

Moving to the “Scientism” essay, recall that Hayek characterised scientism as the unthinking application of the methods of the natural sciences in areas where they did not apply. He then introduced the terms objectivism, collectivism, and historicism to identify certain representative features of ‘the scientistic prejudice’. Such categories were sufficiently broad to encompass all the views that he disdained, from physicalism in philosophy to behaviourism in psychology, from German historicism to the positing of a ‘collective mind’. And it is no coincidence, of course, that the opposite of these terms – which taken together implies a subjectivist, individualist, and theoretical approach to the social sciences – precisely characterises the approach long recommended by the Austrian school economists.

---

<sup>105</sup> Thus in chapter 17, footnotes 8 – 16, Hayek lists the many scholars who had commented on similarities in their views, but he also notes that “there would be about as much justification for thinking that Hegel might have been influenced by Comte, as that Comte was influenced by Hegel”. See also his qualifications at the beginning of Chapter 15 on the “Saint-Simonian Influence”.

<sup>106</sup> This volume, p. xxx (358). He went on to admit that he had there “much sinned against the canons of caution”.

<sup>107</sup> Hayek nowhere offers this as a reason. The reasons he did offer included wanting to work on something entirely new and scientific (*The Sensory Order*) after having completed *The Road to Serfdom*, and, as we have noted earlier, his not wanting to have to read systematically Marx and Hegel. For more on this, see Caldwell, *Hayek’s Challenge*, pp. 257-259.

The claim that there are fundamental differences in the appropriate methods for studying natural versus social phenomena has a venerable history.<sup>108</sup> Given that one of the groups that most agitated him were the British ‘men of science’ who were repeatedly insisting in the public forum on the necessity of applying (natural) scientific methods to the problems of society, it is understandable that Hayek should make recourse to it. Yet it was this very claim that Hayek would soon modify. It appears that he did so in response to criticism he received from a philosopher from Vienna. The philosopher was not, as one might first guess, Otto Neurath, but Karl Popper.

Popper and Hayek had met before war, when Popper gave a presentation of an early version of his *The Poverty of Historicism* in Hayek’s seminar at the LSE.<sup>109</sup> Popper spent the war in New Zealand, and the two men carried on an active correspondence throughout the hostilities. Hayek subsequently aided Popper in a number of ways: he published *The Poverty of Historicism* in three parts in the journal *Economica*, he helped find a publisher for Popper’s *The Open Society and Its Enemies*, and he helped to get Popper an invitation to join the Philosophy Department at the LSE after the war.<sup>110</sup>

Popper discussed Hayek’s “Scientism” essay in *The Poverty of Historicism* in a section titled “The Unity of Method”. He argued there that all real sciences follow the same method, and that this method (which Popper described as hypothetical, deductive, and controlled by attempts to falsify proposed theories) was in fact similar

---

<sup>108</sup> That Hayek appears to have endorsed the distinction, and his insistence on the central rôle of interpretation in the social sciences, has provided grist for many, often conflicting, interpretations of the essay. Suffice it to say that “Scientism” has been variously interpreted as revealing that Hayek was a critical realist, a hermeneutician, and a post-modernist. Such readings may tell us more about the problems that plague the interpretative enterprise than they do about Hayek’s actual views. I address some of this literature in Appendix D of *Hayek’s Challenge*.

<sup>109</sup> Karl Popper, *The Poverty of Historicism*, 2<sup>nd</sup> ed. (London: Routledge), 1957.

<sup>110</sup> Karl Popper, *The Open Society and Its Enemies* (London: Routledge, 1945).

to the one that Hayek had defended as the proper method for the social sciences.<sup>111</sup> On this reading, what Hayek had described as ‘scientism’ was not really the method of the natural sciences, but rather the misguided advice of the ‘men of science’. That Hayek rather quickly accepted Popper’s proposed emendation is seen by the fact that in the 1952 version of “Scientism” Hayek added a wholly new paragraph in which he noted that the methods that natural scientists “have so often tried to force upon the social sciences were not always which the scientists in fact followed in their own field...”.<sup>112</sup> In the Preface to his 1967 collection of essays titled *Studies in Philosophy, Politics and Economics*, Hayek credited Popper with having influenced him to make the change:

Readers of some of my earlier writings may notice a slight change in the tone of my discussion of the attitude which I then called ‘scientism’. The reason for this is that Karl Popper has taught me that natural scientists did not really do what most of them not only told us that they did but also urged the representatives of other disciplines to imitate.<sup>113</sup>

How important was this change for Hayek’s argument? In one respect it mattered little. If in fact the objectivism, collectivism, and historicism that Hayek had criticised were not really practised by natural scientists, but were only caricatures that had been offered up by the ‘men of science’, it would strengthen his argument that

---

<sup>111</sup> Popper, *The Poverty of Historicism*, pp. 130-143. Whether this claim is true or not, and the larger question of the compatibility of Popper’s and Hayek’s methodological pronouncements, are subjects that have given rise to considerable discussion and debate. See for example Bruce Caldwell, “Hayek the Falsificationist? A Refutation”, *Research in the History of Economic Thought and Methodology*, vol. 10, 1992, pp. 1-15; Terence Hutchison, “Hayek and ‘Modern Austrian’ Methodology: Comment on a Non-Refuting Refutation”, *Research in the History of Economic Thought and Methodology*, vol. 10, 1992, pp. 17-32; Caldwell, *Hayek’s Challenge*, pp. 311-312.

<sup>112</sup> This volume, chapter 1, p. XXX.

<sup>113</sup> F.A. Hayek, *Studies in Philosophy, Politics and Economics* (Chicago: University of Chicago Press, 1967), p. viii.

such methods were inappropriate: if they are not followed anywhere, why use them? On the other hand, Hayek's strict delineation between the methods of the social and natural sciences played a key rôle in his own argument that there were special problems in the social sciences that made prediction there more difficult. It was because of these problems that Hayek had drawn the conclusion that often the best that we can do in the social sciences is to make pattern predictions, or to provide explanations of the principle by which social phenomena occur, as in his footpath example. If all sciences follow the same method, on what grounds could one say that prediction was more difficult in certain of them?

Hayek hit on a solution to the problem in the 1950s. From then onwards he would no longer distinguish sciences according to the social science – natural science distinction that he had used in the “Scientism” essay. Drawing on the work of Warren Weaver and others, his dividing line would thenceforth be between those sciences that studied simple and those that studied complex phenomena.<sup>114</sup> Crucially, the major conclusion that he had drawn in the “Scientism” essay – that when dealing with certain phenomena, pattern predictions or explanations of the principle are often the best that one can do – remained in effect. But these limitations plagued the sciences that studied *complex* phenomena (among them economics), rather than *the social sciences* in general.

That Hayek always emphasised these limitations constituted his great source of disagreement with Milton Friedman, for whom ability to predict was the key to any successful science. Friedman of course shared Hayek's antipathy towards socialist planning and was an outspoken advocate of a liberal free market regime. But he was also, in Hayek's eyes at least, a positivist. Friedman had been an undergraduate

---

<sup>114</sup> Warren Weaver, “Science and Complexity”, *American Scientist*, vol. 36, October 1948, pp. 536-544. For a fuller discussion of Hayek's change in position, see Caldwell, *Hayek's Challenge*, pp. 297-306.

student of Arthur Burns (who would later succeed Wesley Clair Mitchell as the Director of Research at the National Bureau for Economic Research), and had worked at the NBER in the late 1930s, where Mitchell had supported and advised him.<sup>115</sup> Though their politics were very different, Friedman's views on the uses of empirical work in economics were nearly identical to those of Mitchell.<sup>116</sup> Friedman's effective advocacy of 'the methodology of positive economics' cut the cord tying positivist methodology to socialism, and helped to ensure the preservation of the former in economics long after the enthusiasm for socialism had waned.

### *The Planning Mentality and Science*

Let us turn finally to Hayek's critique of the planning mentality and the attendant hope that science will allow us to refashion society. The planning mania that Hayek was attacking reached its peak in the inter-war years, and then dissipated following the war. This is not to say that it wholly disappeared. With the Labour Party in control, nationalisation of the British economy hit about 20% at its high point in 1948, but after that pretty quickly ran out of steam. Experiments in planning continued to crop up over the years, from indicative planning in France in the 1960s, to calls for industrial policy in the United States, to the establishment in 2005 of a

---

<sup>115</sup> See Milton and Rose D. Friedman, *Two Lucky People: Memoirs* (Chicago and London: University of Chicago Press, 1998), pp. 69-75.

<sup>116</sup> See Mitchell, *Two Lives*, p. 351, where in his notes concerning the rationale for the founding of the NBER Mitchell wrote, "Group interested found certain differences in opinions on public policies based on different views concerning fundamental facts rather than on differences of our economic interests. No one could be sure his views were sound or that other fellow's were mistaken. None of us had time and facilities for making sure – though the facts could be obtained with substantial accuracy. We believed many other men felt same need of a fact-finding agency....National Bureau of Economic Research chartered January 1920 as such". Compare this to the rationale for empirical work – to settle disagreements among people – that Friedman offered: "...you have a set of personal probabilities about events of the world.... I have a set of personal probabilities. Those personal probabilities differ. That's why we argue. The rôle of statistical analysis is to lead us to reconsider our personal probabilities in the hope that our personal probabilities will come closer and closer together". Milton Friedman, quoted in Daniel Hammond, "An Interview with Milton Friedman", in *Research in the History of Economic Thought and Methodology*, Warren Samuels and Jeff Biddle, eds, vol. 10 (Greenwich, CT: JAI Press, 1994), p. 101.

Network of European Technocrats, the last seeking to transplant a revitalised Technocracy movement on a new continent. But at least at the present writing, the vision of a rationally and fully planned society seems more like an artefact of a simpler time, or perhaps even a warning of a coming dystopia, than anything else.

One can think of a variety of reasons for why the change took place. The faith that science, once freed from the shackles of capitalism, was an unmitigated force for good was harder to maintain after Hiroshima, the start of the Cold War, and the subsequent arms race. ‘Learning how to live with the bomb’ led intellectuals to Existentialism, not Technocracy. The Soviet and Chinese examples eroded faith in the efficacy of the more extreme forms of central planning and of nationalisation schemes. In the west at least, the new ‘middle way’ was no longer socialism but some sort of mixed economy, variously labelled ‘the welfare state’, ‘the social market economy’, ‘the Keynesian consensus’, ‘Butskellism’, and the like. Hayek himself recognised the changes, which may be yet another reason why he decided not to continue with his big book.<sup>117</sup> He would be a critic of these modifications in his later years, when to engage them he would develop new arguments.

In any event, it is evident that certain parts of Hayek’s arguments will seem somewhat dated. This is, of course, less a criticism of Hayek than a recognition of just how much the world has changed since the inter-war years. Nonetheless, some on the left may view Hayek’s specific criticisms of the planning mentality as having little relevance for their own positions.<sup>118</sup>

---

<sup>117</sup> By 1956 Hayek could write, in his introduction to the American paperback edition of *The Road to Serfdom*, p. 44, that the “hot socialism against which it was mainly directed...is nearly dead in the Western world”. Of course, as his emphasis on “the Western world” makes clear, for the hundreds of millions of people living in the Soviet Union, the East Bloc countries, China, North Korea, and other places where communist ‘experiments’ were attempted, the reality was decidedly different.

<sup>118</sup> Note for example Jeffrey Friedman’s statement regarding Hayek’s critique of the planning mentality: “the persistence of this polemic even after the advent of the New Left must have seemed to any left-wing reader of Hayek like a well-honed obsession, as it completely ignored the post-war left’s

There is certainly some truth to the charge. Part of the problem is that Hayek's neat bifurcation of the west's great political and economic thinkers into those whose ideas are in accord with the Scottish enlightenment heritage and those whose fit in better with the continental constructivist rationalist tradition, as fruitful and illuminating as it sometimes is, simply fails to make sense of certain cases.<sup>119</sup> For example, the distinction is unhelpful if one seeks to understand the positions of nineteenth century anarchists like Peter Kropotkin, who was a proponent of both a voluntaristic communism and positivism, but also a virulent anti-statist, or Michael Bakunin, whose writings carry the epigraph, "Liberty without socialism is privilege, injustice; socialism without liberty is slavery and brutality".<sup>120</sup> Moving to more recent times, members or followers of what became known as the Frankfurt School were virulent critics of authoritarian planning, positivism, and the alienation that permeated a technology-dominated society, all of which they depicted as a legacy of the enlightenment.<sup>121</sup> Certain scholars who were affiliated with the Frankfurt School went on to become iconic figures for the New Left.

---

revulsion against authority, planning, and 'conscious control'". Jeffrey Friedman, "Popper, Weber, and Hayek: The Epistemology and Politics of Ignorance", *Critical Review*, vol. 17, nos. 1-2, 2005, p. xl.

<sup>119</sup> Arthur Diamond, "F.A. Hayek on Constructivism and Ethics," *Journal of Libertarian Studies*, vol. 4, Fall 1980, pp. 354-358, challenges Hayek's placement of several writers within the two camps. As we saw earlier, Milton Friedman also did not fit the mould.

<sup>120</sup> See Marshall S. Shatz's introduction to *Kropotkin: The Conquest of Bread and Other Writings*, in the series *Cambridge Texts in the History of Political Thought* (Cambridge: Cambridge University Press, 1995), pp. xvii-xviii; *Bakunin on Anarchy: Selected Works by the Activist-Founder of World Anarchism*, edited and translated by Sam Dolgoff (New York: Knopf, 1972). Hayek's characterisation in chapter 15, p. \_\_\_\_, of the "strong democratic and anarchistic elements" that had entered socialism by 1848 as "new and alien elements" shows that he recognised that his categorisation scheme did not fit them, but his decision simply to define positions that do not fit his scheme as "alien" is hardly satisfactory.

<sup>121</sup> Thus in a chapter titled "The Concept of Enlightenment" we find Max Horkheimer and Theodor Adorno writing such passages as "the fully enlightened earth radiates disaster triumphant" (p. 3), "Enlightenment is totalitarian" (p. 6), and "To the Enlightenment, that which does not reduce to numbers, and ultimately to the one, becomes illusion; modern positivism writes it off as literature" (p. 7). See their *Dialectic of Enlightenment*, translated by John Cumming (New York: Herder and Herder, 1972). Hayek apparently had little patience with the Frankfurt School, especially the writings of Herbert Marcuse: "It's the kind of Marxism which I dislike the most. It's a combination of Marxism and Freudianism. I am equally opposed to both of the sources, and in its combined form I find it particularly repulsive". F.A. Hayek, quoted in Dahrendorf, *LSE*, p. 291.

And indeed, many modern critics of scientism are in fact to be found on the left. These critics are opponents of the technological imperatives of a developed society and advocates of personal freedom and self-determination, which in their eyes can only come about by bringing an end to social and economic injustice. But as virtuous as such calls for reform may sound, they are not in the end that helpful. As Hayek always emphasised, both he and his opponents typically seek similar ends, and differ principally on the means that they think are best to achieve them. So it is only after one gets beyond such vague generalisations as ‘ending injustice’ that one encounters the real issue: as Lenin once put it, what is to be done?

It is here that Hayek and the New Left would presumably offer quite different answers.<sup>122</sup> If one wanted to have a meaningful comparison of positions, the right questions to move the discussion forward might be: What workable proposals have members of the New Left put forth? And how do they compare to Hayek’s? On this score, we might find some fault with both camps, for neither has been particularly good at moving from the philosophical to the policy level.

Proponents of ‘critical theory’, as is evident by the name, have always been much better at thorough-going critique than at explaining how a new and more just society is to be formed. Indeed, for most critical theorists, trying to define a set of concrete proposals for social change would itself be a positivistic violation of the sort of fully Hegelianised vision of social evolution that they embrace, as well as simply a waste of time, given the complexity of social reality.<sup>123</sup> As a result, intricate and

---

<sup>122</sup> Hayek in fact hoped to engage the left in a grand debate over these matters in the late 1970s, and though the debate never took place, it led him to write his final book, *The Fatal Conceit: The Errors of Socialism*, ed. W.W. Bartley III, vol. 1 (1988) of *The Collected Works of F.A. Hayek*.

<sup>123</sup> For more on the Frankfurt School and critical theory, see Martin Jay, *The Dialectical Imagination: A History of the Frankfurt School and the Institute of Social Research 1923-1950* (Boston: Little, Brown and Co., 1973), and Zoltán Tar, *The Frankfurt School: The Critical Theories of Max Horkheimer and Theodor W. Adorno* (New York: Schocken Books, 1985). As Jay, pp. 63, 152, notes, most of those affiliated with the Institute of Social Research did not have much interest in economics, and indeed accused members who sought to undertake purely economic analyses, like the Marxist

often quite nuanced cultural critiques are what one typically received from those associated with the Frankfurt School. If the point is to change the world, however, criticism is not enough.<sup>124</sup> The challenge that faces critics on the left is to come up with a set of operational proposals for how to change society for the better, ones that take into account all that we have learned about how market and planned systems typically work, and how and when they fail to work.

As for Hayek, he too can be faulted for seldom getting to the operational level, though he did at least provide some concreteness in the last third of *The Constitution of Liberty*.<sup>125</sup> Others have risen to the task, however. Modern day economists working within the Austrian tradition, as well as public choice theorists, those who study property rights and transactions cost economics, some experimental economists, and participants in the New Institutional Economics movement, may all in varying degrees be viewed as trying to fill in the blanks that Hayek left in his always very general framework.

There was another important difference between Hayek and some of his more recent opponents on the left. Like the ‘men of science’ whom he had criticised in the 1940s, Hayek was a full participant in the modernist scientific project: he saw himself as a scientist, and believed in the power of scientific argument.<sup>126</sup> His complaint was that many other believers (especially those so ready to label their opponent’s beliefs as ‘metaphysics’) were, from his perspective, not practising what they preached.

---

economist Henryk Grossmann, of fetishisation: to separate out purely economic causal mechanisms was repellant to proponents of a fully dialectical approach.

<sup>124</sup> “The philosophers have only *interpreted* the world, in various ways; the point, however, is to *change it*”. Karl Marx, “Theses on Feuerbach”, in *The Marx-Engels Reader*, ed. Robert Norton, 2<sup>nd</sup> ed. (New York: Norton, 1978), p. 145.

<sup>125</sup> F.A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960). A *Collected Works* edition of this title is anticipated.

<sup>126</sup> “Some readers may feel that I myself in many respects hold views so closely related to those I criticise that I am hardly entitled to reject them. Yet fertile criticisms will always only come from persons holding somewhat similar views and the apparently small differences may indeed make all the difference between truth and error”. Notes, Hayek papers, box 107, folder 17, Hoover Institution Archives.

Hayek was a modernist through and through, but one who recognized the importance of interpretation. As a subjective value theorist raised within the Austrian tradition, he was in this sense a fully representative member.

### Where Hayek Went Instead

Hayek never completed the Abuse and Decline of Reason project, instead moving on to other endeavours. In many cases, however, the new research that he undertook in its stead had links, sometimes very direct links, to his great unfinished work.

As noted earlier, the first ‘delay’ was caused by his decision to focus on writing and publishing the second part of the book, which became *The Road to Serfdom*. He might well initially have planned to return to the larger project, but the *Reader’s Digest* condensation of *The Road to Serfdom* caused further delays by turning him into an internationally-known figure virtually overnight. This led in its turn to an invitation from Harold Luhnow of the Volker Fund to write an American version of the book, which he did not do, but Luhnow did help Hayek to fulfil a dream to create an international liberal society, one that had its first meeting in Mont Pèlerin, Switzerland in April 1947. The Luhnow connection also ultimately led to Hayek’s appointment to the Committee on Social Thought at the University of Chicago in 1950.<sup>127</sup>

After finishing *The Road to Serfdom*, Hayek began in the summer of 1945 to write an essay on psychology. Tentatively titled “What Is Mind?” and based on a paper he had written in his student days, he hoped that it would be completed quickly. It was not. Though he had a first draft done in 1945, the essay ultimately turned into a

---

<sup>127</sup> For more on this, see the editor’s introduction to F. A. Hayek, *The Road to Serfdom*, pp. 18-21. The Volker Fund provided the monies for Hayek’s appointment.

book, one that would not finally be published until 1952 under the title, *The Sensory Order*.<sup>128</sup>

The link between the “Scientism” essay and *The Sensory Order* is a direct one. Chapter 5 on the objectivism of the scientific approach contains a lengthy critique of physicalism in philosophy and behaviourism in psychology, one that is based on a theory of sense perception that Hayek alludes to but does not fully describe.<sup>129</sup> The theory that he was referring to was one that he had developed in a paper that he had written as a student at the University of Vienna but had never published. The initial motivation behind “What Is Mind?”, then, was to sketch out the foundation which underlay his critique. The book that resulted, of course, went far beyond a critique, but that was evidently why Hayek initially began the project.<sup>130</sup>

In 1951 Hayek published another book that had direct ties to the Abuse of Reason project. *John Stuart Mill and Harriet Taylor: Their Correspondence and Subsequent Marriage*<sup>131</sup> collects letters between Mill and Taylor from the early 1830s until her death in 1858. Hayek provided the requisite historical background to the letters in his introduction and first chapter, and then interspersed additional background commentary among the letters. He would later report in an interview that it was his work on the Saint-Simonians for the Abuse of Reason project that had “led unexpectedly to my devoting a great deal of time to John Stuart Mill, who in fact never particularly appealed to me, though I achieved unintentionally the reputation of

---

<sup>128</sup> F.A. Hayek, *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology* (Chicago: University of Chicago Press, 1952). A *Collected Works* edition of this book is anticipated.

<sup>129</sup> This volume, pp. xxx – xxx.

<sup>130</sup> Though criticisms of behaviourism and physicalism may still be found in *The Sensory Order*, they were much more prominent in the first draft of “What Is Mind?”. Indeed, the criticism of behaviourism begins on the first page of the draft, under the heading “Views Which Deny or Disregard the Problem”, that is, the problem with which the book would deal, that of a sensory order that differs from the natural order that science has revealed to us.

<sup>131</sup> F.A. Hayek, *John Stuart Mill and Harriet Taylor: Their Correspondence and Subsequent Marriage* (Chicago: University of Chicago Press, 1951). A *Collected Works* edition of this volume is anticipated.

being one of the foremost experts on him”.<sup>132</sup> In his research on Mill Hayek had come across a considerable amount of unpublished correspondence. He found the letters between Mill and Taylor to be “peculiarly fascinating”,<sup>133</sup> ultimately prompting him to gather the most important of them together in a book.

Turning next to “Individualism: True and False”, which was to have been the introduction to *The Abuse and Decline of Reason*, it would not I think be overreaching to suggest that many of the most important themes that one finds in his later political writings, both *The Constitution of Liberty* and *Law, Legislation, and Liberty*, are present somewhere in the essay.<sup>134</sup> Thus we find him discussing there the differences between the French and the Scottish enlightenment; the importance of limiting the coercive power of the state to only those circumstances in which it is indispensable for reducing coercion by others; the limits of human knowledge and its implication that one should use general rules and abstract principles in designing a suitable legal framework; the tension that exists between preserving individual freedom within a market order and achieving distributive justice; and the importance for the smooth functioning of society of individuals submitting to moral rules and conventions that may appear to them unintelligible and irrational. Not everything is there – for example, evolutionary themes and the linking of spontaneous orders to rule-following would be added later – but “Individualism: True and False” still provides a précis or thumbnail sketch of much of Hayek’s future work in political philosophy.

As we saw above, though Hayek changed his definition of scientism (to the methods *purportedly* followed in the natural sciences and which were advocated by the men of science), he never changed his bedrock methodological claim about the

---

<sup>132</sup> F.A. Hayek, *Hayek on Hayek: An Autobiographical Dialogue*, Stephen Kresge and Leif Wenar, eds (Chicago: University of Chicago Press, and London: Routledge, 1994), p. 128.

<sup>133</sup> *Ibid.*, p. 129.

<sup>134</sup> F.A. Hayek, *Law, Legislation, and Liberty*, 3 vols. (Chicago: University of Chicago Press, 1973-79). A *Collected Works* edition of this work is anticipated.

limitations that social scientists face. And ironically it was in being forced to modify his argument that Hayek came finally to realise exactly what caused the limitations: we face limits in sciences like economics because we study phenomena of organised complexity. This allowed Hayek to provide a foundation for his fundamental conclusion that when dealing with complex phenomena, the scientific hope that scientific advances will one day permit us to control and predict them is a false and dangerous one. Hayek's subsequent important work on the theory of complex phenomena (and on the related area of spontaneously-forming orders) was certainly linked to his movement from the natural science – social science distinction to the simple phenomena – complex phenomena one.

Finally, in his own mind at least, Hayek saw a connection between the Abuse and Decline of Reason project and his last book, *The Fatal Conceit*, which was published in 1988, only four years before his death. On a file card dated May 22, 1985, Hayek described the manuscript on which he was then working as follows: “This is to be the final outcome of what I planned about 1938 as *The Abuse and Decline of Reason* and of the conclusions which I published in 1944, the sketch on *The Road to Serfdom*. It is a work for which one has to be an economist but this is not enough!”<sup>135</sup>

This allows us to conclude by pointing out a final irony. As we have shown, a great deal of Hayek's subsequent work, either directly or indirectly, had a connection to his great unfinished war effort. The book was, it would seem, left uncompleted in name only.

---

<sup>135</sup> File card dated May 22, 1985 provided by Stephen Kresge. Hayek made literally thousands of file cards while working on various projects, which contained thoughts or quotations from others that he would use in his books.

Bruce Caldwell

Greensboro, North Carolina

February 2007