

The Economics of F. A. Hayek

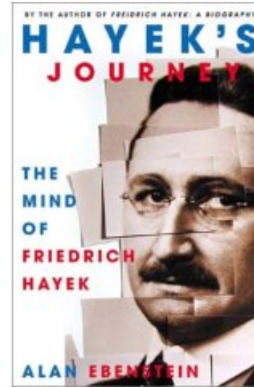
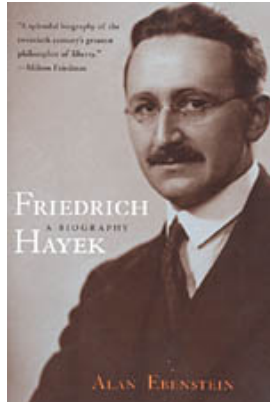
Peter G. Klein
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July 2008



Recent literature

- ▶ Vast secondary literature – dozens of books, hundreds of articles
- ▶ Recent books:
 - Ebenstein, *Friedrich Hayek: A Biography* (2001)
 - Ebenstein, *Hayek's Journey: The Mind of Friedrich Hayek* (2003)
 - Caldwell, *Hayek's Challenge* (2003)
- ▶ Recent articles: Caldwell-Salerno debate
- ▶ *The Collected Works of F. A. Hayek* (1988–)



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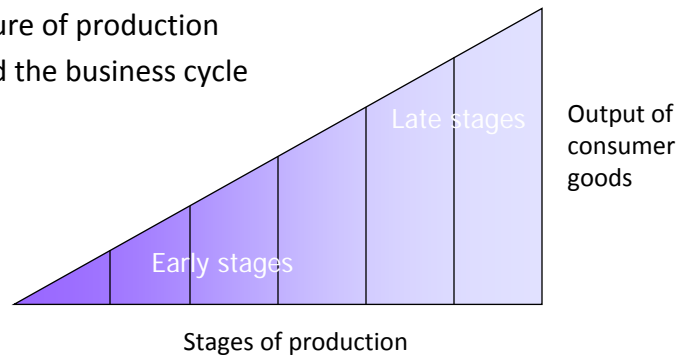
Hayek's life and work

- ▶ Vienna (1899–1931)
 - Mises and the *Privatseminar*
 - Austrian Institute for Business-Cycle Research
- ▶ London (1931–1950)
 - Controversies with Keynes
 - *The Pure Theory of Capital* (1941)
- ▶ Chicago



Business-cycle theory

- ▶ The structure of production
- ▶ Money and the business cycle



Knowledge, prices, and competition as a discovery procedure

► The economic problem

The economic problem of society is thus not merely a problem of how to allocate “given” resources — if “given” is taken to mean given to a single mind which deliberately solves the problem set by these “data.” It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only those individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge not given to anyone in its totality.

— Hayek, “The Use of Knowledge in Society” (1945)

► Tacit knowledge

► Competition and discovery

► Spontaneous order

Hayek and Austrian economics

► Hayek, Mises, and Popper

► Economic calculation under socialism

► The “de-homogenization” debate

- Salerno (1993, 1999, 2002): two strands of Austrian economics, both derived from Menger
 - Wieser–Hayek–Kirzner: focus on dispersed knowledge, price system as a communications system (verbal general equilibrium theory)
 - Böhm-Bawerk–Mises–Rothbard: focus on monetary calculation and appraisal



Hayek on Mises

One of my differences is over a statement of Mises [in *Socialism*] on basic philosophy over with I always felt a little uneasy. . . . Mises asserts in this passage that liberalism “regards all social cooperation as an emanation of rationally recognized utility, in which all power is based on public opinion, and can undertake no course of action that would hinder the free decision of thinking men”. . . . The extreme rationalism of this passage, which as a child of his time he could not escape from, and which he perhaps never fully abandoned, now seems to me factually mistaken. It certainly was not rational insight into its general benefits that led to the spreading of the market economy. It seems to me that the thrust of Mises’s teaching is to show that we have not adopted freedom because we understood what benefits it would bring: that we have not designed, and certainly were not intelligent enough to design, the order which we now have learned partly to understand.

— Hayek, introduction to 1981 edition of Mises’s *Socialism*