

## Book review

### **Hayek's Challenge: an Intellectual Biography of F. A. Hayek**

Bruce Caldwell

*Chicago and London, The University of Chicago Press, 2004*, pp. xi + 489, \$55.00

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This is a challenging work; indeed the reader's challenge starts with the title. *Hayek's Challenge* is subtitled 'an intellectual biography' of Hayek, and the publisher describes it as 'the first full intellectual biography' of Hayek (front flap). But Caldwell himself appears to disagree: it was 'never my goal' to write 'a comprehensive intellectual biography' (177, note 10). Further, the book has a 'secret title': *Caldwell's Challenge* (4). To assess what Caldwell has done, it is important to be very clear about what he was trying to do. Caldwell spells out in detail, in engaging autobiographical passages, that his own interest is very much in the area of methodology; and *Hayek's Challenge* is an intellectual biography in a very precise and restricted sense: specifically, it is a methodological history, an account of Hayek's search for an understanding of scientific method adequate for the investigation of complex spontaneous orders. The story told is of Hayek's journey from 'Austrian presuppositions' to 'a place that was unique' (12). Hayek's contributions to politics, economics, psychology, and so on, are brought in only to the extent that they are required to illustrate and explain Caldwell's methodological narrative. Once this is understood, Caldwell's concentration on certain issues, and relative neglect of substantial aspects of Hayek's legacy – which would certainly betray severe lack of balance in a 'comprehensive' intellectual biography – become understandable and, indeed, in my opinion, wholly justified.

The nature of the project explains the structure of the work. The book consists of an introduction and three parts: a prehistory of Hayek, introducing us to the Austrian school of economics; the main story of 'Hayek's Journey'; and a final, results-and-prospects section. The first part documents the emergence of the Austrian school through struggle with its intellectual antagonists – historicists, positivists and socialists. Caldwell highlights the contributions of Menger and Max Weber. This long – five chapters and more than a hundred pages – scene-setting operation is, I think, both necessary to understand the subsequent specifically biographical story, and also an original contribution to our understanding of the Austrian school. The story is also well-told. This sets the scene for the following part, the core of the book. 'Hayek's Journey' consists of eight chapters on the phases of Hayek's methodological development, from his methodological starting points of the early years in Vienna and at the LSE, to the preoccupation with complexity and evolution characteristic of his mature standpoint. Part III, 'Hayek's Challenge' consists of a retrospective and appraisal of Hayek's 'multiple legacies', and a final chapter in which Caldwell shows how, he believes, Hayek's contributions to methodology illuminate the history of twentieth century economic thought.

A number of points may be made in appraisal of Caldwell's achievement. On the credit side, Caldwell, who is also the general editor of Hayek's collected works, is extremely knowledgeable about his subject matter, and is profoundly in sympathy with it. Moreover, he is a congenial story-teller and the narrative flow carries the reader

effortlessly along. Given the inherent difficulties of the material, this is a signal achievement. This is in fact a book which Hayek scholars and students will need to refer to, and indeed undoubtedly will refer to, with pleasure, for years to come.

On the debit side, we are faced with a number of issues involving the critique of Hayek. It is perhaps asking too much to expect a biographer to deal with every aspect of the criticism of his subject which has been raised, but even so, this book seems to me to be very light on critical reflection on Hayek. Throughout the book, Caldwell insists that he wants to ‘make sense’ of Hayek, implying that this is something that Hayek’s critics do not want to do (5). ‘In part 2 ... I seldom paused to assess his substantive claims. Rather, I focused on making sense of the journey’ (323). Part 3 ostensibly sets out to remedy this. Ch 14, ‘Journey’s End – Hayek’s multiple legacies’, presents, despite the apparent implication of its title, ‘an assessment of Hayek’s methodological legacy’, with other issues only dealt with to the extent that an appraisal of the *methodological* legacy involves commenting on his contributions to other fields (323).

Given that this chapter is a summary by a leading Hayek scholar of Hayek’s contributions to the question of what constitutes truly scientific study of organic society, the modesty of Caldwell’s claims on Hayek’s behalf is quite remarkable. It does seem to me that he damns Hayek with the faintness of his praise. Every so often he confesses that ‘Hayek’s recourse to history must appear a little disingenuous’ (328), ‘There was a blunderbuss quality to Hayek’s attack’ (340), ‘Hayek clearly did not succeed’ in providing ‘a finished political philosophy’ (347), ‘Putting the best face on it ... Hayek’s reconstruction of the process of cultural evolution ... was ... incomplete.’ (355), and so on.

Mostly, however, it is what Caldwell doesn’t say which raises eyebrows. Caldwell sets out his appraisal of Hayek’s methodological contribution in nine sections – monetary theory and the trade cycle, Robbins and Hayek, ‘*Homo Economicus*’, ‘Economics and Knowledge’, the ‘Scientism’ essay, the Sensory and other orders, Hayek’s political theory, cultural evolution and group selection, and the theory of spontaneous orders. In almost every case, Caldwell’s final verdict is strangely muted. On monetary theory and the trade cycle, Caldwell reports Hayek’s view that any such theory should be based on four methodological precepts, of which the only one commanding significant assent today is the very one which Hayek himself later dropped, namely the requirement that macro theory should have micro foundations in general equilibrium theory (327). On Hayek’s encounter with Robbins, Caldwell concludes that he ‘suspects’ that Hayek shared Robbins’s view of Mises, ‘but, as usual, compelling evidence is hard to find’ (329). The inconclusive section on ‘*Homo Economicus*’ hardly mentions Hayek at all. The next section argues that ‘Hayek’s varied insights into the “knowledge problem” probably constitute his most enduring legacy in economics’, but Caldwell does not assess that contribution, merely reporting his own ‘inclination’ to think that the central Austrian contribution is the critique of socialism (338). Caldwell concludes the section on a very weak note by conceding that everyone involved in the socialist calculation debate, Hayek included, took an ideological stance, but suggesting without further discussion that Hayek’s ideological stance was ‘more perceptive’ (339). One could continue.

Mostly, Caldwell does not consider criticism of Hayek – after all, in his view, the critics are not trying to ‘make sense’ of him – but in one or two places Caldwell does attempt a defence. An instance concerns Hayek’s adoption of a group selection mechanism to underpin his evolutionary theory. It is remarkable that Caldwell can set out precisely what is wrong with group selection (353), and still defend Hayek on the next page. The problem is that in the competitive struggle between groups, groups of altruists are vulnerable to subversion from within by individuals adopting a self-seeking strategy. In Maynard Smith’s terms, altruist strategies are not ‘evolutionarily stable’. Hence even if groups of altruistic individuals would do better than groups of selfish individuals, such competition between groups cannot get started. To believe that individuals will act in the social interest, rather than their own, contradicts the rational, materialist kernel of methodological individualism, that social outcomes have to be consistent with self-seeking individual behaviour. Caldwell’s response is weak in the extreme: ‘Because Hayek’s conception of the individual allowed for considerably more complex human responses, his framework is less susceptible to this objection [ie, that self-seeking individual behaviour undermines group selection].’ (354) ‘Hayek was never a doctrinaire methodological individualist. He was willing to seek explanations on many different levels ... there is no inconsistency’ (356). Even if Hayek were right that individuals might act in an altruistic manner, as Caldwell seems to suggest here, how could they possibly know what it was in the interest of society for them to do? On Hayek’s account, they only have knowledge specific to their circumstances and do not have access to the big picture, to knowledge of society as a whole. The issue of group selection is thus a major problem for the appraisal of Hayek’s methodological standpoint, and Caldwell’s account does little to rescue Hayek’s approach.

Group selection is closely, indeed intimately, connected with the issue of ‘Panglossianism’ in Hayek. Caldwell writes:

“The price system alone is not enough to explain the coordination that we observe; it is only one of a number of social institutions that help coordinate the actions of market participants. Hayek’s later work in political philosophy was, in part, designed to identify the fuller set of institutions whose presence would create an environment that would least hinder the coordination of knowledge. The phrasing *least hinder* is intentional – there was nothing Panglossian in Hayek’s vision.” (338)

“Hayek never claimed optimality for markets. This is why I characterized him earlier as seeking that set of institutions that *least hinder* coordination.” (349)

But this is illogical. Talk of sets of institutions ‘least hindering’ something implies either that every set hinders it to some extent, or we are only interested in those that hinder it. Surely, if every set of institutions hinders agent coordination, the set which hinders it least *is* optimal; if on the contrary some sets promote coordination, to focus on the set that ‘least hinders’ it would be perverse. The premise, that every set of institutions hinders coordination, is also meaningless: hinders coordination relative to what? Something – *X* – can only be said to hinder something relative to a situation in which *X* is absent. Where did Hayek ever suggest that coordination would be better in the absence of institutions? Hayek did not believe that: he clearly believed that institutions enabled coordination and some sets did it better than others. And

Caldwell concedes the point: on the previous page he says ‘Market prices *permit* ... knowledge to be used by others, thereby *assisting* in the mutual *coordination* of plans... The price system ... is ... one of a number of social institutions that *help coordinate* the actions of market participants.’ (337 – my emphasis.) Again: Hayek’s ‘preferred approach was to examine the sorts of institutional arrangements that ... might *best allow individuals to coordinate* their actions’ (333 – my emphasis). So Hayek did not believe that institutions hinder coordination, he believed that at least some institutions aided coordination, and he was concerned – as indeed are we all – with the set that does the best job. There’s nothing Panglossian about that. The Panglossianism comes in when Hayek argues that spontaneous forces – in particular the group-selection evolutionary process – are intrinsically human-favourable and tend to generate the optimal sets of institutions we’re looking for. Caldwell concedes (356) that it would be natural for Hayek’s readers to conclude that his descriptions of the emergence of markets are accompanied by normative claims; in other words, that he commits the naturalistic fallacy. However, according to Caldwell, this would be mistaken – ‘as Whitman (1998) has carefully documented’. But Whitman’s (1998) paper in *Constitutional Political Economy* has been criticised in the same journal (Denis, 2002), and his claim that Hayek avoided the naturalistic fallacy cannot be accepted. Rather, once the passages Whitman cites are read in context, the ‘Panglossian’ interpretation of Hayek becomes even stronger. In sum, Caldwell’s defence of Hayek on the issue of the Panglossian results of his group-selection evolutionary theory is far from convincing.

The bottom line is this: Caldwell interprets Hayek’s methodological development as a pilgrimage starting from standard Austrian assumptions, and ending up somewhere unique (12). On this journey he was driven by the goal of developing a scientific approach to the study of society as a complex system, an approach which would provide intellectual support for capitalism. Now the question is, whether in fact he ever reached this goal, or was still searching for it at the end of his life? Was Hayek’s final view, really his final view, or just as far as he had happened to get? Caldwell doesn’t answer this critical question. To do so he would need to examine whether the forces which had carried Hayek so far, were now finally reconciled, and the journey over.

*Andy Denis*  
*City University, London and London School of Economics*

Andy Denis (2002) “Was Hayek a Panglossian evolutionary theorist? A reply to Whitman” *Constitutional Political Economy* 13 (3), September, 275-285.

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Send me an e-mail at: [a.denis@city.ac.uk](mailto:a.denis@city.ac.uk).

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