

HAYEK'S POLITICAL ECONOMY: THE SOCIO-ECONOMICS  
OF ORDER. BY STEVE FLEETWOOD. ROUTLEDGE. 1995.

Mr. Fleetwood approaches Hayek's thought from an unusual angle. His book began as a dissertation supervised by Tony Lawson, a leading advocate of "critical realism" as a philosophy of economics; and our author ardently embraces the faith of his mentor. As Fleetwood sees matters, Hayek after 1960 largely succeeded in grasping the new view, even though he lacked the benefit of instruction from Roy Bhaskar, whom the critical realists regard as the supreme guiding light in all matters philosophical. "There are, then, grounds for ascribing to Hayek the label quasi-transcendental realist. . . . One of the most important developments of critical realism is the Transformational Model of Social Activity (TMSA) . . . Hayek appears to adopt something approaching it" (p. 86).

We can best grasp the TMSA and its blessings by retracing Hayek's path to it. In the 1930s, Hayek was in the grip of positivism. As positivists see matters, causation reduces to correlation: "A causes B" means "Instances of A always precede instances of B." On this view, a cause is on the same level as its effect. It is not an underlying structure that explains its effect, in a deeper sense of "explain" than constant correlation.

Economists who accept this doctrine must confront a severe problem. Correlations of the needed kind are nowhere to be found. If, for example, the price of a good rises, it by no means inevitably follows that the quantity of the good demanded will fall. Suppose, e.g., that the prices of close substitutes for the good rise at an even greater rate. The initial price rise may then, paradoxically, increase the quantity demanded of the good.

Has the law of demand been repealed? Not at all, one might at first think to answer. It holds, as the familiar phrase has it, *ceteris paribus*—other things being equal. In given circumstances, the effects of the law of demand may not be evident, but the law still holds good, when the conditions that govern its application obtain.

Our author finds this escape unsatisfactory.

The positivist deals with the (real) complicating factors that cause the irregularities in events/actions, by spiriting them away by the often completely fictitious use of axioms of human behavior, assumptions and *ceteris paribus* clauses. The presumption is that a theoretical model is constructed as a "scaled-down" version of reality as it were, a model that captures not every aspect but, in some, typically, undefined sense, the most important aspects of reality. (p. 138)

In brief, the positivist cannot cope with economic reality and flees to simplified models. Fleetwood maintains that, before 1936, Hayek followed exactly this course.

Prior to 1936, . . . the only domain of reality that Hayek's empiricist ontology permits him to investigate is that of the empirical, that is, he must couch his investigation in terms of the events of experience. This encourages the use of equilibrium as the organizing principle of socio-economic activity. (p. 6)

In the 1930s, Hayek modified his philosophy. He now took account of the meanings economic events have for market actors. No longer was he confined, in positivist fashion, to the surface.

After 1936 Hayek develops an ontology and epistemology that permits not only events given in sense experience, but also conceptions or ideas held by agents. He now recognizes a further domain of reality, that is, a domain (metaphorically) deeper than, or beneath, the flux of events, namely the conceptions created by agents. (p. 6)

Unfortunately, the new philosophy proved unsatisfactory. If economic events exist only as meanings, the real world has been abandoned. Fleetwood does not attribute to Hayek the odd view that thought literally creates physical goods. Rather, the position, which our author with characteristic inelegance calls "hermeneutic foundationalism," holds "that whilst the existence of an external entity is (of course) recognized, any structure humans perceive in it is the result of the cognitive capacity of the mind, not the objective properties of the entity" (p. 18; emphasis removed).

Fleetwood's story has a happy ending. He detects in Hayek's thought around 1960 a fundamental transition. Hayek now abandoned subjectivism for a position very close to critical realism. No longer is the economist confined to surface phenomena, and the structure he discerns is not the product of his own interpretative activity. Quite the contrary, the economist, on Hayek's post-1960 position, can detect real structures.

It is this new stance that enables Hayek to solve the problem of detecting causation in the real world. No longer need the economist engage in a futile effort to find invariable correlations.

Once an empirical realist methodology is abandoned, Hayek can shift the focus of economic investigation: he can move beyond the events/actions given in experience . . . to the underlying structures, that is, to the domain of the deep. Lack of perfect regularity between events (i.e.; lack of Humean laws) is simply no longer a problem, because the nature or orderliness is established at the level of the deep. Deep structures act with transfactual necessity and do not therefore become problematic when they do not give rise to event regularity at the level of events. (p. 140)

Structures "really" exist, even if one cannot gain access to them by observation.

The fundamental failing of Fleetwood's book stands revealed in an endnote. Our author informs us, "I shall not be concerned with the traditional debates on Hayek's methodology that focused upon Hayek as praxeologist . . . Hayek as a Popperian and/or falsificationist" (p. 160, n. 1). But Hayek without praxeology is very much *Hamlet* without the Danish prince. By ignoring praxeology, Fleetwood misses a way in which the alleged philosophical differences among his Hayek I, Hayek II, and Hayek III can be reconciled. Instead, he forces Hayekian thought within the Procrustean framework of his own critical realism.

Need one take Hayek I to be a positivist? Hayek in *Prices and Production* seems rather to be arguing in a deductive fashion. Is he not elaborating what I remember him

often calling in lectures the “pure logic of choice” rather than seeking correlations in the style of Hume?

Fleetwood will no doubt respond that he has already allowed for my point. A Humean on his construal is free to simplify reality by “closing the system” (p. 138); but the deductive models constructed by this means do not accurately describe reality. But is this not entirely to ignore praxeology? As Mises classically elaborated the position, the axiom of action, along with a few subsidiary postulates, is known to be true. What follows deductively from it applies directly to the world. The conclusions of economics, then, are not desiccated abstractions but simple truth.

Our author will not likely surrender. Have I not wrongly assumed that Hayek followed Mises in method? What about Hayek’s own statement, “I myself originally approached my subject . . . thoroughly imbued with the belief in the universal validity of the methods of the natural sciences . . . what little training I had in philosophy or method was entirely in the school of Ernst Mach and later of the logical positivists” (p. 158).

Did Hayek learn nothing from Mises? Why assume that he retained his positivist views once he began seriously to study economics? Fleetwood might counter that I have begged the question against him. Have I not assumed that Hayek adopted the sum and substance of Mises’s views? The objection has merit, so I retreat to a weaker view. If Fleetwood dissents from the picture of Hayek’s praxeological approach here sketched, must he not at least consider it? Our author, instead of looking at authors whom Hayek read, imposes a philosophical scheme derived from his own favorites, Bhaskar and Lawson.

A like failing infects the treatment of Hayek II and III. When Hayek II, following standard Austrian subjectivist doctrine, stresses the meaning of events for economic actors, this does not imply that these events lack any structure of their own. Hayek begins with subjective values and meanings, but he does not end there. What about Hayek’s constant talk of the unintended consequences of human action? These consequences surely are not confined to mentally imposed structures. The deep dimension of structure that beguiles our author was present in Hayek’s work long before 1960.<sup>1</sup>

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<sup>1</sup>For further discussion of critical realism, see my review of Tony Lawson, “Economics and Reality,” *Quarterly Journal of Austrian Economics* 2, no. 2 (1999): 93-96.