

HAYEK AND THE MEANING OF SUBJECTIVISM

Israel M. Kirzner¹

Hayek students may notice the parallelism between the phrase "The Meaning of Subjectivism" and the title of one of Hayek's own path-breaking papers, "The Meaning of Competition"². Indeed, the purpose here is to suggest that this parallelism expresses an important insight: the difference between two identifiable levels of subjectivism in economic theorizing is the root of the difference between the two different meanings of the term "competition" which Hayek's paper identified.

The exposition of this insight will take the form of three distinct claims. i) We will argue that what was responsible for the mainstream pre-World-War-II "technical" use of the term "competition", a use which Hayek vigorously criticized in his paper, was a failure to appreciate the deeper level of subjectivist economic theoretical exploration, which Hayek himself was expounding. ii) Our argument will, at the same time, articulate the following significant observation: As we shall see, Hayek attributed to his mentor Ludwig Mises a unique level of subjectivist understanding in economics; it seems no accident, therefore, that we will discover that it is in his "The Meaning of Competition" paper that Hayek makes it clear that in one respect, at least, despite several significant methodological and substantive disagreements separating them, Mises and he were in thorough agreement – i.e. on the dynamic character of the competitive market process and its basis in subjectivist insight. iii) The circumstance that Hayek's paper appeared during the 1937-48 decade will, we shall claim, be of considerable importance. This is because, it can be argued, it was in that decade that Hayek and Mises made separate series of contributions that, taken together, constituted a radical deepening of the subjectivism that, ever since Carl Menger, was associated with the Austrian tradition in economic theory³. Although not widely noticed at the time, these contributions were in fact decisive advances in this Austrian tradition – advances which comprehensive expositions of the history of Austrian Economics must surely take into account.

In order to begin to support these claims, let us start with a classic, oft-cited – yet still remarkable – statement (originating in that same 1937-48 decade) made by Hayek concerning the role of subjectivism in economic theory. In his "The Counter-Revolution of Science"⁴ (published in 1955, but originating in several papers published in *Economica*, 1942-44), in the chapter entitled "The Subjective Character of the Social Sciences", Hayek wrote: " ... it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism." In a footnote⁵ to this remarkable sentence, Hayek adds the following glowing tribute to Mises: "This [i.e. the "consistent application of subjectivism" (IMK)] is a development which has probably been carried out most consistently by L. V. Mises and I believe that most

¹ Paper delivered on the occasion of the award of the Hayek Medal, Berlin, June 25, 2015.

² F. A. Hayek, "The Meaning of Competition", chapter 5 in F. A. Hayek, *Individualism and Economic Order*, (London: Routledge and Kegan Paul, 1949).

³ See Israel M. Kirzner, "Ludwig von Mises and Friedrich von Hayek: the Modern Extension of Austrian Subjectivism", chapter 7 in Kirzner, *The Meaning of Market Process, Essays in the Development of Modern Austrian Economics* (London and New York: Routledge, 1992).

⁴ F. A. Hayek, *The Counter-Revolution of Science, Studies on the Abuse of Reason* (New York: Free Press of Glencoe, 1955), p. 31.

⁵ *Ibid.*, pp. 209f.

peculiarities of his views ... are due to the fact that in the consistent development of the subjectivist approach, he has for a long time moved ahead of his contemporaries ..." Clearly, Hayek was not merely beating the drums for a subjectivist approach to economic theory; he was specifically attributing advances in modern economic theory to a more "consistent application of subjectivism". Apparently Hayek identified different levels of consistency in the application of subjectivist insights; he associated deeper levels of subjectivism with the more important advances in the modern economic theory of the subjectivist tradition.

A similar perception of different levels of subjectivism appears to explain an otherwise puzzling paragraph written (or, at least, endorsed) by Mises in 1933. In his 1933 "Grundprobleme der Nationalökonomie", Mises wrote: "Within modern subjectivist economics it has become customary to distinguish several schools. We usually speak of the Austrian and the Anglo-American Schools and the School of Lausanne. Morgenstern's work ... has said almost all that is necessary about the fact that these three schools of thought differ only in their mode of expressing the same fundamental idea and that they are divided more by their terminology and by peculiarities of presentation than by the substance of their teachings."⁶ At first glance this paragraph is startling. Anyone, such as I, who studied under Mises during the Fifties (a mere two decades after the above paragraph was written) must know that Mises considered his own economic theory to be on a quite different epistemological and substantive track than the mainstream economics of his time. Clearly, the "subjectivism" of the various "schools" of "modern subjectivist economics" to which Mises was referring was at a decisively different level than the subjectivism which supported Mises' own economics (and to which Hayek was referring in the above-cited footnote).

We have already stated our hope to show that the difference between the various "meanings" of "subjectivism" is at the root of the ambiguities in the "meaning" of "competition". Before we develop this thesis, we must first explore the sense in which subjectivism in economics can be described as either superficial or as at a deeper level.

THE MEANING OF SUBJECTIVISM: AN OVERVIEW

When Hayek stated (or, at least, implied) that some important advances in economic theory, dating from the mid-nineteenth century, represented steps in the consistent application of subjectivism, he was, without doubt, thinking, inter alia, of the marginal utility revolution of the 1870s. Whereas the classical economists had seen systematic chains of cause and effect (in economic affairs) as being rooted exclusively in the laws of physics and biology, with virtually no role for the consciously choosing individual participant in the economy, the marginal utility revolutionaries succeeded in steering economic theory onto a track which recognized the importance of the consumer, and of his choices, in economic explanation. This was certainly a crucial advance in economic theory; and it was certainly a significant manifestation of awareness of the role of subjectivist analysis. For Marshall, Walras, as for Menger, analysis of the demand side of the market was critical in understanding market prices, both for consumer goods and for factors of production.

Utility theory compelled the economic theorist to acknowledge the decisive role played by individual human beings, each with his/her unique set of consumer preferences, in determining the patterns of production (including both the arrays of diverse goods to be produced, and the methods of production to be deployed, thus identifying the arrays of inputs to be purchased). There is little doubt, too, that

⁶ See the English translation of Mises' 1933 book, L. von Mises, *Epistemological Problems of Economics*, translated by George Reisman (Princeton: Van Nostrand, 1960), p. 214.

when, in the above-cited paragraph, Mises included the "Anglo-American" School and the "School of Lausanne" as being part of "modern subjectivist economics", he was referring to that same widely-shared theoretical vision in economics in the early decades of the twentieth century – a vision which rejected both the near-exclusive physicalism of the classical school, and the historicism of the German Historical School.

Yet Hayek, writing in the early years of World War II, and Mises, writing and teaching at midcentury, saw the subjectivism of these marginalist revolutionaries as limited and inadequate. There was nothing in that subjectivism which was able to prevent mid-twentieth-century mainstream economic theory from going astray (i.e. from arriving at a theoretical vision which included no scope whatever for what Hayek saw as the role for the dynamic competitive market process). That limited, inadequate subjectivism was entirely consistent with an economic theory built around a concept of so-called perfect competition – which Hayek denounced as intrinsically incapable of providing explanation for market movements. In his "The Meaning of Competition", Hayek developed this critique of the "perfect-competition" analytical framework. We have claimed a correlation between this analytical framework and the (limited) subjectivism of early twentieth century mainstream theorists, and at the same time, we claim a corresponding correlation between the deeper subjectivism of Hayek (and Mises), and what Hayek viewed as a more perceptive understanding of the role of competition (as a dynamic process). But in order convincingly to establish such correlation, we must explore these different levels of subjectivism more carefully.

DECISION-MAKING: THE CLOSED-END FRAMEWORK OR AN OPEN-ENDED ONE

We may interpret Hayek's (and Mises') critique of mainstream neoclassical microeconomic theory in the following terms: That neoclassical theory "explained" market outcomes in terms of harmoniously mutually-interacting decisions. Each of these decisions was (given all the other decisions being made) seen as "determined" by the decision maker's preferences and resources. The role played by Lionel Robbins' distillation of the economic decision, as being one of allocating given scarce "means" in order to maximize attainment of the decision maker's given "ends"⁷, is unquestionably, but not directly, part of our present exploration. The outcome of any such "decision" is implicit in the arrays of given preferences and resources, so that the market outcome (i.e. the pattern assumed by all of the mutually interacting decisions) is also implicit in, utterly determined by, these given sets of individual preferences and available resources. The subjectivism respected by these mainstream microeconomic theorists (i.e. their attention to the choices made by potential consumers) did not insulate them from arriving at this vision of a mutually determining "closed-ended" world, a world in which ignorance, uncertainty, discovery and inspired innovation, are not permitted to introduce any cloud of less-than-perfect determinacy, into the overall vision.

Hayek's emphasis on a deeper, more encompassing, level of subjectivism in economic theory, enabled him to draw attention to the limitations of the earlier mainstream theorizing, built as it was, on a level of subjectivist insight that was distressingly superficial. The "advance of subjectivism", Hayek pointed out, focused analytical attention on "the compatibility of intentions and expectations of different people, of the division of knowledge between them, and the process by which the relevant knowledge is acquired and expectations formed."⁸ In a footnote to this sentence, Hayek refers the reader to his 1937 paper "Economics and Knowledge". In that paper Hayek drew attention to some of the implications of

⁷ Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: MacMillan, 1932), chapter 1.

⁸ F. A. Hayek, *Counter-Revolution*, op. cit., p. 33.

such a deeper, more advanced subjectivism, in particular its implication for paying attention to issues concerning knowledge. He pointed out that the standard approach to theory starts from the "assumption of a perfect market where every event becomes known simultaneously to every member."⁹ He further pointed out that to start from this assumption (i.e. to start with the assertion that equilibrium exists) "does not get us any nearer an explanation of when and how such a state will come about."¹⁰

It was these very same considerations which led Hayek to his critique of "perfect competition" in his paper "The Meaning of Competition". That notion "throughout assumes that state of affairs already to exist which, according to the truer view of the process of competition tends to bring about." It was, thus, Hayek's rebellion against the closed-endedness of analysis (which we found to be entirely consistent with the earlier, superficial and limited level of subjectivism) which led him to endorse a totally different ("dynamic") notion of competition. "Competition", Hayek wrote, "is essentially a process of the formation of opinion: by spreading information, it creates that unity and coherence of the economic system which we presuppose when we think of it as one market."¹¹

We have thus succeeded, I believe, in establishing the correlation announced at the outset: the ability to transcend the flawed framework of the perfect competition (equilibrium) model, (and thus to advance to appreciate the dynamic role of the competitive process) goes hand in hand with the advance from the closed-endedness implicit in earlier, superficial subjectivism, towards an appreciation of the implications of a more open-ended subjectivism, one sensitive to the role of changing knowledge and expectations (and their impact on market phenomena).

"OPEN-ENDED" SUBJECTIVISM AND THE AUSTRIAN TRADITION

We have cited Hayek's critique of the notion of perfect competition, and his insistence that "competition is essentially a process of the formation of opinion...". It is worthwhile to pause to locate this latter language of Hayek within the subjectivist tradition of the Austrian School. Hayek was drawing attention to what competition is. We suggest that, in doing so, Hayek was not so much clarifying the appropriate use of a technical term; he was, more importantly, exploring the subjectivist insights encapsulated in that technical term. In this endeavor he was, arguably, following in Menger's footsteps.

In an oft-quoted letter which he wrote to Léon Walras, Carl Menger expressed his reservations concerning the usefulness of mathematics in economics. In Terence Hutchison's words, Menger "insisted that what the economist is after is not only relationships between quantities (Größenverhältnisse), but the essence (das Wesen) of economic phenomena: 'How can we attain', he asks Walras, 'to a knowledge of this essence, for example, the essence of value, the essence of land rent, the essence of entrepreneurs' profit, the essence of the division of labor ... by mathematics?'"¹².

It can be suggested that in exploring the subjectivist insights encapsulated in the economist's technical term "competition", Hayek was adhering to Menger's program. To discuss competition is to explore what competition is – an exploration the results of which Hayek summarized in his statement that competition is a process of the formation of opinion. For Hayek, as for Menger, the essential role of

⁹ F. A. Hayek, "Economics and Knowledge", *Economica*, 1937, pp. 33-54; reprinted as chapter 2 in Hayek, *Individualism and Economic Order*, op. cit., p. 45.

¹⁰ Hayek, "The Meaning of Competition", op. cit., p. 92.

¹¹ *Ibid.*, p. 106.

¹² Terence W. Hutchison, *A Review of Economic Doctrines, 1870-1929* (Oxford: Clarendon Press, 1953), p. 148.

economic theory is not so much to account for the attained values of respective economic quantities – but rather its role is to interpret those "quantities" in subjective terms. For a thorough-going subjectivist economic theorist to explore what "competition" is (or what a "price" is, or what the "market process" is ...) means to explore and identify the knowledge, the expectations, and the valuations, responsible for, and implicit in, that "competition" [or that "price", that "market process" ...] – and thus to understand the process triggered by these subjective elements, the elements of expectations, discovery, and surprises.

That this role for the economic theorist is central to the Austrian tradition can be illustrated by a passage in a paper by Mises. In that passage Mises supplies his answer to one of the questions posed by Menger to Walras: "[What is] the essence of entrepreneurs' profit ...?" There is no record that Mises was aware of Menger's letter to Walras; but the following passage emphatically illustrates his deep concern with the question itself. "What makes profit emerge", Mises wrote, "is the fact that the entrepreneur who judges the future prices of the products more correctly than other people do buys some or all of the factors of production at prices which, seen from the point of view of the future state of the market, are too low. Thus the total costs of production ... lag behind the prices which the entrepreneur receives for the product. This difference is entrepreneurial profit."¹³ [Italics supplied.] It should be noticed that in this passage Mises tells us that pure entrepreneurial profit is a difference between two sets of prices each of which expresses the subjective expectations of the respective market participants.

In identifying pure entrepreneurial profit as a form of arbitrage gain [i.e. as the difference between two sets of prices for essentially "the same" item] Mises was putting his finger on the essence of the dynamic competitive market process which Hayek had identified as the appropriate meaning for the technical term "competition". Clearly the competitive process is an entrepreneurial process – in which competing market entrants, harboring different sets of expectations concerning the future, are subjecting themselves to the uncertainties of the unfolding future. What the competitive process is, for Hayek as for Mises, is the process through which these competing sets of beliefs concerning the future interact into the formation of the unfolding realities of the future. For both Hayek and Mises, any understanding of the nature of this competitive, entrepreneurial market process must begin with an escape from the "closed-ended" analysis which we found to be implicit in the assumption of "perfect competition" (and the limited level of subjectivism which that assumption recognized).

IGNORANCE, DISCOVERY AND THE ECONOMICS OF SEARCH

A brief digression may here be of some value in order to sharply distinguish the way in which Hayek introduced issues of knowledge into our understanding of the market process (and its possibly equilibrative character) from the way in which later neo-classical economists (such as George Stigler) introduced the "economics of search" into formal price theory. The latter extension of price theory recognized that market participants may find themselves in need of additional information, and proceeded to incorporate their endeavors to satisfy this need through deliberate search, into a more comprehensive price theory. Subjectivist economists can have no quarrel, per se, with this enrichment of standard neo-classical equilibrium price theory. However it is necessary to point out that any such enrichment has nothing to do with a Hayekian (or Misesian) rejection of an exclusively equilibrium (i.e. perfectly competitive) price theory, in favor of their subjectivist understanding of the open-ended

¹³ Ludwig von Mises, "Profit and Loss", chapter 9 in Ludwig von Mises, *Planning for Freedom and Other Essays* (South Holland: 1952), p. 109.

entrepreneurial-competitive process of the market, which, as we saw earlier, Hayek identified as "a process of the formation of opinion".

For a Stiglerian economics of search, a need for information is no different than a consumer's need for ice-cream, or a manufacturer's need for hired labor. One knows that one "needs" to consume the ice cream; one knows that one needs to hire labor. Similarly one knows that one needs certain items of information. To search for such information is to engage in a specific kind of "production". One knows what it is one wishes to produce; one knows the kinds of resources necessary successfully to produce the "product"; one's production decision on whether or how to search, is entirely parallel to one's decision on whether or how to buy ice-cream or to produce hot dogs or whatever. To research a topic in an encyclopedia is to "produce" information. In this framework there are no surprises, no true discoveries; in fact we can describe the framework within which search is conducted as a framework of "perfect knowledge" – perfect knowledge, that is, of what it is that needs to be "produced", together with perfect knowledge of how to "produce" it, perfect knowledge of the value of what one seeks to produce, and perfect knowledge of the costs of "production". The sense in which Hayek understood the competitive market as one of mutual discovery¹⁴ is quite different.

For the Hayekian discovery procedure (of the competitive process) one has, until the moment of discovery, not been aware of one's ignorance. "Discovery" consists in realizing the truth of matters concerning which one had previously not known that one was ignorant. The dynamic competitive market process that Hayek's subjectivism identified is one made up not by deliberate search projects, but by continually unfolding entrepreneurial conjectures concerning where pure profit opportunities are waiting to be grasped.

We can now turn to the second of the three claims announced at the outset. This was the claim that it was in his "The Meaning of Competition" (and in the deeper level of subjectivism which, we have argued, was at the root of his dissatisfaction in that paper, with the mainstream notion of competition) – that Hayek's economic understanding came closest to that of his mentor, Ludwig Mises.

SUBJECTIVISM, HAYEK, MISES AND THE MARKET PROCESS

Certain background clues pointing to the validity of this "second claim" may be noticed. We have seen how Hayek's own position in "The Meaning of Competition" flows out of his own deeper level of subjectivism; we have seen how Hayek attributed Mises' advances in economic theory to Mises' "consistent application" of his subjectivism. I can report that early in the Fifties, when I began my studies under Mises, he directed me to read "The Meaning of Competition". Clearly the message of that paper (namely, the character of the dynamic competitive market process) was a message which Mises thoroughly approved of. It was a message which Hayek, too, apparently recognized to be thoroughly consistent with the deeper level of subjectivism which he associated with Mises.

To recognize this convergence between Mises and Hayek is not at all to deny the various differences which certainly separate Hayekian economic theory from that of Mises. Intellectual biographers of Hayek have expended much ink in their explorations of these differences and in seeking explanation for why Hayek, at least during Mises' lifetime, failed to underline them. What concerns us in the present context is not the truth concerning the existence of these differences (an existence which we do not

¹⁴ See the phrasing of Hayek's paper "Competition as a Discovery Procedure", chapter 12 in F. A. Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas* (Chicago: University of Chicago Press, 1978).

challenge) – but the insight that despite these differences, Hayek and Mises had a basically identical understanding of the way in which a market economy works.

This shared understanding, we argue, consists in their appreciation of the "mutual discovery" character of the dynamic market process, their appreciation for its dependency upon competition (understood as continual scope for new entrepreneurial entrants into the market), and their recognition of the role of deeper subjectivist theorizing in articulating the nature of this process. Appreciation for the validity of this "second claim" of ours will help us understand the shared position of Mises and Hayek concerning Mises' denial of the very possibility of central economic planning (i.e., under socialism). That Hayek (despite all his disagreements with Mises) fully supported Mises on this issue during the Thirties¹⁵ can be understood, surely, only in terms of the shared understanding of the market process, which permitted them to identify with precision where any centrally planned system must come up short. For a thorough analysis of how all the neo-classical "refutations" of the Mises-Hayek position during the Thirties failed to grapple with the fundamental point central to that position (namely, the dynamic character of the market process) – see the brilliant book-length comprehensive exposition by the late Don Lavoie¹⁶.

What we have argued, in making our "second claim", is that this shared understanding of the market process is rooted in that deeper level of subjectivist understanding which (in our first claim) we associated with Hayek's correspondingly deep appreciation for the nature of the dynamically competitive process. We should not close this section without at least recognizing or even "conceding" that Hayek's understanding of the dynamic market process, and Mises' understanding of it, while fundamentally identical, yet came from two distinct sets of subjectivist insights. Mises' exposition did not emphasize changing arrays of knowledge and information; rather his exposition was rooted in his understanding of entrepreneurship. Hayek paid little (if any) attention to entrepreneurship – his exposition of the market process was in terms of changing patterns of knowledge and information.

This is not the place to explore these differences between these expositions. It is my conviction (based on personal conversation with Hayek) that, when pressed, Hayek was fully prepared to accept a "translation" of his "knowledge-story" of the competitive process, into language drawing on the role of entrepreneurship. The "second claim" is not an attempt to paper over any differences between Misesian and Hayekian expositions of the process. It is advanced in order to emphasize the underlying commonality of the Misesian and Hayekian accounts despite superficial differences in the wording of these respective accounts.

We are now ready to turn to our third claim regarding Hayek's subjectivism and its relationship to his paper on "The Meaning of Competition".

HAYEK'S SUBJECTIVISM AND THE LONG-RUN HISTORY OF THE AUSTRIAN SCHOOL¹⁷

It will be recalled that we drew attention to the circumstance that Hayek's "The Meaning of Competition", and his classic, deep and wide discussions concerning subjectivism in the social sciences, were written and published during the 1937-48 decade. We described that decade as the decade during

¹⁵ See Hayek's papers on this issue, reprinted as chapters 7, 8, and 9, in his *Individualism and Economic Order*, op. cit.

¹⁶ Don Lavoie, *Rivalry and Central Planning, The Socialist Calculation Debate Reconsidered* (Cambridge: Cambridge University Press, 1985).

¹⁷ This section draws substantially on the author's forthcoming paper, "Hayek, the Nobel, and the Revival of Austrian Economics", *Review of Austrian Economics*.

which, although it was hardly noticed at the time, Hayek and Mises each made decisive advances in the Austrian tradition, with these advances being able to be seen, in retrospect, as constituting pivotal events in the long-run history of the Austrian tradition in economic theory. Although we have made this "third claim" in prosaic, matter-of-fact language, the truth is that this claim projects an almost dramatic perspective on the "dogmengeschichtliche" events to which it refers.

When this writer began his studies under Mises during the Fifties, the textbooks on the history of economic thought dealt with the Austrian tradition as a historical episode strictly of the past. That tradition, it was typically explained, had been an important component of the marginalist revolution of the 1870s, and it remained important during subsequent decades; it continued, moreover, at first to thrive in the interwar years, but, somewhere during the 1930s, the tradition lost its important place within twentieth century economics. That place came to be occupied by newer, emerging schools of economic thought, including macroeconomic thought inspired by Keynes, mathematical economics building on Walras, empirical and econometric investigations reflecting impatience with the "emptiness" of pure theory. The textbooks acknowledged the continuing work of Mises and of Hayek, but made it clear that their work should be seen as the last twitches of a dying tradition.

In one sense it is impossible not to concede a certain validity to these textbook treatments. The journals of that period were chock full of work stemming from the non-Austrian frameworks listed above. A student who confessed to studying under Mises was typically eyed with a quizzical look expressing surprise (and, perhaps, pity ...). And there were grounds for believing that the Austrian tradition had been fairly vanquished on the battlefield of intellectual debate. Hayek's challenges to the macroeconomics of Keynes and his disciples seemed to have been decisively quashed. Mises' thesis concerning the impossibility of central economic planning seemed to have been categorically refuted by the work of Oskar Lange, Abba Lerner, and others. Hayek's defense of Austrian capital theory (defenses built on the work of Eugen von Böhm-Bawerk) seemed to have been demolished by Frank Knight (in a way that seemed to confirm the earlier anti-Bawerkian contributions of John Bates Clark). The Austrian reluctance to introduce mathematics into their theory, and their abstract, non-empirical approach to issues of economic policy, seemed thoroughly out-of-step with the rapid advances being made in mathematical economics and in econometrics. The circumstance that Austrian economics tended to support a free-market ideology – during a period in which the role of government in ensuring prosperity and efficiency was widely, if uncritically, accepted – must certainly have contributed to the impression that the Austrian School was, if not quite dead (as a central component of mid-century economic discussion), at least on its deathbed.

And yet, it is our claim that precisely during the 1937-48 decade (a time during which the Austrian tradition was being given a respectful, decent burial in the textbooks of history of economic thought), the two surviving Austrians, Mises and Hayek, were making revolutionary advances in the Austrian tradition. These advances, we claim, go far to explain the remarkable re-kindling of interest in the work of Mises and Hayek and the Austrian tradition that we have witnessed during the last four decades. Precisely during the period during which the Austrian tradition was seen to have come to an end, that tradition was producing new work that would, in the fullness of time, lead to a reinvigoration, if not the resuscitation, of that tradition.

The truth was that, prior to the mid-Thirties, there was a commonly shared core of understanding among the major schools of economic theory regarding the workings of a market economy. When, as noted earlier, Mises described the major schools of economic theory as differing only in "their mode of expressing the same fundamental idea", so that these schools were "divided more by their terminology and peculiarities of presentation than by the substance of their teachings", he was referring to that shared understanding of the workings of the market. As has been extensively developed by Frank M.

Machovec¹⁸, this shared understanding did include (an admittedly somewhat crude) appreciation for a competitive process (not any preoccupation with any artificially-constructed theoretical equilibrium framework of "perfect competition").

The shared understanding of these early twentieth century schools of economic theory "saw the market as a process through which entrepreneurs earned profit to discover what to produce and how to produce."¹⁹ This shared understanding gradually came to be replaced, by the mid-Thirties, with a microeconomics dominated by the perfectly competitive model, i.e. by an approach which begins with the assumption of equilibrium, and with the assumption of perfect mutual information.

From a perspective fully aware of the shared economic understanding of the early twentieth century schools, the "new" microeconomics built within the equilibrium framework could be viewed in different ways. The new mainstream theorists saw this innovation as an analytical advance, replacing a loose, rather vague and crude understanding of the market process, by an analytically precise, mathematically exact set of propositions which they found intellectually satisfying, and pedagogically teachable. To those, like Mises and Hayek, who were not prepared to surrender the older traditional shared understanding of the market, the newer analytical framework must have appeared confusingly abstract, disastrously unreal, and as entirely missing the central insights of traditional economic reasoning.

This writer has suggested that what drove home to Mises and Hayek the drastic degree to which mainstream microeconomics had dumped the older verities of the profession was the mainstream reaction to the Austrians' critique of the possibility of efficient central planning²⁰. As Mises and Hayek separately set about responding to the mainstream responses to the Austrians' challenge, it apparently became clear to them how much damage the new equilibrium approach had in fact inflicted on the shared orthodoxy of the earlier neoclassicals. As they separately sought to explain what had always been meant by their thesis that economic calculation without a competitive market process was impossible, they found themselves compelled to articulate more carefully and more explicitly, that which had merely been implicit in the earlier shared doctrine of early twentieth century economics. Perhaps without realizing what they were in fact doing, each of them was separately forging new complementary strands of subjectivist understanding of what is meant by the competitive market process. Mises articulated his insights in terms of the entrepreneurial character of all human action. Such an articulation decisively set his economics apart from strictly equilibrium theorizing, since in equilibrium there is no scope for entrepreneurship. Hayek deepened his understanding of the competitive process by explicitly emphasizing the necessarily subjective character of the social sciences, and was thus led to focus attention on the information-communicating role of the market process. His seminal "The Meaning of Competition" was a key element in the brilliant set of papers in which this deeper level of subjectivism was developed.

So that, in drawing attention to Hayek's recognition of different levels of subjectivism and to the relationship of that recognition to his critique of mainstream treatments of competition strictly in the sense of perfect competition, we are at the same time drawing attention to the pivotal "dogmengeschichtliche" significance of the 1937-48 decade. That was the decade during which the Austrian School made a giant step forward through its deepening of its traditional emphasis on subjectivism. The circumstance that this was the decade during which it was thought that the Austrian tradition was no longer alive, and that no one, not even Mises and Hayek, seemed to be aware of the significance of this advance, makes that advance even more intriguing and dramatic. The renewed interest in contemporary economic thought, in the Austrian approach in general, and in the work of

¹⁸ See Frank M. Machovec, *Perfect Competition and the Transformation of Economics*, (London and New York: Routledge, 1995).

¹⁹ Machovec, *op. cit.* p. 300.

²⁰ On this see the writer's paper "The Economic Calculation Debate: Lessons for Austrians", *Review of Austrian Economics* (1988, vol. 2), reprinted as chapter 6 in Israel M. Kirzner, *The Meaning of the Market Process*, *op. cit.*

Hayek in particular, makes our "third claim", the claim regarding the deepening of Hayekian subjectivism during the 1937-48 decade, even more relevant and noteworthy.

CONCLUSION

Friedrich Hayek was not merely a towering figure in twentieth-century economics. His extraordinary scholarship also spanned, of course, the fields of philosophy, political philosophy, legal theory, psychology, and more. His contributions to these areas have nourished, and undoubtedly will continue to nourish, scientific work on a vast scale. My own background as a student in the Austrian Economics tradition, and a disciple of Ludwig Mises has, for many decades, led me, more narrowly, to appreciate, in particular, Hayek's role in the perpetuation of that Austrian tradition, and his intellectual integrity in recognizing (despite the significant respects in which his economics differed from the Misesian) the extent to which he and Mises had the same central understanding of the competitive market process. The dramatic circumstance that the articulation of this commonality occurred during a time when the mainstream writers saw them merely as the residual survivors of a bygone school of thought makes this even more fascinating.