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6 October 2008
Available online 17 October 2008

doi:10.1016/j.jebo.2008.10.004

The Economics of Friedrich Hayek, G.R. Steele., 2nd ed., Palgrave MacMillan, New York (2007). 234+ xii pp., index, $ 95.00, ISBN: 1-4039-4352-4

There is little doubt that F.A. Hayek's stature as a leading economist and social theorist of the 20th century has been fully established by supporters and critics alike. Unlike many other notable economists of the previous century, Hayekian ideas are still providing the inspiration for an ever-expanding research program. Aside from Hayek's own voluminous writings, which continue to be read and studied anew by young scholars, a huge and expanding secondary literature in the journals and in monographs provides the all important explanatory and interpretative support essential for coming to terms with a wide-ranging and complex thinker. Professor Steele's *The Economics of Friedrich Hayek*, a revised version of the first edition that appeared in 1993, is a useful addition to this literature. While the bulk of this new edition mirrors the first edition, there are some notable changes which merit close attention by those already familiar with Hayek.

The structure of the book reflects the full panorama of Hayek's *oeuvre* with chapters on Hayek's cognitive theory, liberal social theory, methodological issues in the social sciences, the socialist calculation debate, monetary theory and policy (including international monetary systems and monetary standards), the theory of capital, and business cycles. Now, as anyone familiar with Hayek can appreciate, this expansive coverage of often technical and certainly conceptually difficult material would be expected to present no small challenge for the author. But in large measure, Steele has successfully negotiated this terrain by principally focusing on what Hayek said, while avoiding getting bogged down in detours, excessive parsing of Hayek's ideas, and the many ongoing areas in Hayek's thinking that continue to be debated by scholars. As importantly, Steele's book is not and does not claim to be a critical assessment of Hayek's work. While this tack may be problematic to some readers, my reaction is highly positive in that the book provides one of the more accessible and reliable entrées for understanding Hayekian economics and social theory.

At the same time, however, it is not a primer on Hayek. In the chapter on capital, for example, which brings forward certain ideas in Hayek's arguably dense *The Pure Theory of Capital*, some readers may find the material difficult to the point of precluding its use with students. But even if Steele's treatment here appears a tad labored at times, this chapter bucks the trend found in most secondary discussions on Hayek's capital theory by at least providing a useful treatment of an otherwise neglected work by Hayek. And while some chapters are uneven in the sense of pitching their discussions at various levels of detail and difficulty, there is little question that the book deserves a wide readership.

Perhaps the most interesting and successful change from the 1st edition is Steele's chapter on *The Sensory Order*, also a work that until quite recently languished in the backwaters of Hayekian scholarship. Steele's chapter builds on an article he published in *Theory and Psychology* in 2002, but it delves into this area at a considerably greater depth than the article. Recognition and appreciation by economists of Hayek's cognitive theory has been slow to catch on, often hesitant, and sometimes fitful. Since the early 1990s, however, the secondary literature in this area reveals a more widespread interest in two overlapping, but identifiably different, directions of scholarship spawned from *The Sensory Order* and Hayek's other writings in cognitive theory. At the risk of oversimplification, one direction attempts to locate this cognitive work as a means to more fully capturing and understanding the nexus of Hayek's ideas. This approach uses Hayek's cognitive theory to provide a more thoroughgoing basis for understanding Hayek's epistemology and his methodological views. This work argues that causal connections exist between, for example, Hayek's cognitive theories and his subjectivism, espousal of "constraints on knowledge," and the nature and limits of prediction in the social realm. There is little question that this literature has provided important insights about Hayek's contributions in social theory.

But the *The Sensory Order* has also spawned another and complementary literature that investigates various possible implications and applications of Hayek's cognitive work for understanding social phenomena. The fact that Hayek happened to have produced such work is, in effect, simply a happy circumstance, but otherwise beside the point in terms of its relevance or significance as such. The literature that may be placed within this track has been less interested (although not necessarily uninterested) in establishing a more complete and tidy intellectual portrait of Hayek; instead, it has strived to seek in Hayek's cognitive theory, which explains individual cognition, its relevance in supporting various generalizable applications at the social level (see, for example, Rizzello, 1999; Koppl, 2001; McQuade, 2007).

Steele's treatment squarely falls into the first track, and within that context he provides an excellent overview of Hayek's work that is of value to any reader who wishes to understand this aspect of Hayek. Of special significance is Steele's citing of such important thinkers in neurophysiology and philosophy as Edelman, Fuster, Damasio, Plotkin, and Dennett—contemporary luminaries whose own research is significantly aligned with Hayek's cognitive work of the 1950s. Steele appropriately emphasizes the connections between Hayek and these contemporary thinkers as centering on the adaptive qualities of human cognition, but curiously fails to exploit the opportunity to interpret Hayek's cognitive theory as more than a perspective centering on limits to knowledge, a perspective that drives how most economists interpret *The Sensory Order*.

Had Steele moved beyond that perspective, some new responses could have been brought to bear in responding to the chorus of doubters who ask: "why bother with *The Sensory Order* at all, given that its value-added or relevance for economics has already been captured?" The key insight of mind as an adaptive system recurs throughout Steele's chapter on *The Sensory Order*. But the corresponding implication of the mind as a knowledge-generating order is not made explicit, and hence the adaptive argument ends up as somewhat toothless. It is the fuller reckoning of this aspect of Hayek's cognitive theory that identifies the "second track" mentioned above and which has failed to receive attention in Steele's book, although the same could be said of many other otherwise insightful treatments in the economics literature that deal with *The Sensory Order.*[1]

There are two general ways that the knowledge-generating aspects of the mind intersect with economics: first, as a way of capturing human agency as a necessarily creative force in which learning and adaptation apply to individual action, thereby complementing the more commonly accepted idea of reactivity to exogenous market-level or environmental factors. For example, the knowledge-generating perspective suggests opportunities to expand the conception of entrepreneurial activity beyond arbitrage responses put in motion by discovery of disequilibrium prices and toward innovating action that creates new disequilibrium prices. It also engenders the basis for sustaining a more cognitively-based understanding of rationality if behavior reflects, as *The Sensory Order* argues, the expression of tacit rules by which the individual constructs an interpretative classification of external reality, thereby providing a view of agency more complex and less deterministic than conventional rational choice theory.

The second way that emphasizing the knowledge-generating aspects of mind matters for economics is the development of corresponding analogies and implications that apply at the market level or system-level of analysis. According to McQuade (2007), this perspective (what he refers to as the theory of "adaptive-classifying systems") offers additional explanatory power for the catallaxy and other instances of Hayekian emergent orders, including science and cities. Clearly, if the knowledge-generating attributes of systems (or even sub-systems) are related to their institutional arrangements, system-level outcomes will be correspondingly affected. This perspective, then, holds substantial promise for comparative institutional analysis that complements in essential ways the more conventional analysis geared toward the discovery and transmission of knowledge under alternative institutional conditions. While this sort of perspective does not inform Steele's book, the overall execution of Hayekian themes in Chapters 2 and 3 could have easily provided a useful basis and entrée into such questions.

Among the more successful chapters of Steele's book are those devoted to Hayek's views on monetary theory and policy and the business cycle. In this connection, mention can be made of any number of useful points that Steele develops. For example, in his discussion of "neutral money," Steele points out that Hayek put it forth as a purely theoretical concept, akin, for example, to the "natural rate of interest," and describing neutral money as the absence of real effects associated with the use of money and its manipulation by policymakers. Thus, Steele correctly portrays the concept as an unattainable "ideal" and not as a "simple stratagem" for monetary policy (Steele, p. 127).

Steele presents Hayek's business cycle theory in Chapter 9. He provides an extended discussion organized around the "interest rate effect" and the "relative price effect" of the distorting effects on the structure of production associated with credit expansion. The former refers to a market rate of interest pushed below the natural or equilibrium rate by credit expansion, while the latter refers to the "differential impact that changes in the [market] rate of interest and changes in final goods' prices have upon investment opportunities" (Steele, p. 158). Using material developed in chapter 8 on the theory of capital, Steele demonstrates that the yield on long-duration projects is disproportionately favored over shorter ones when the market rate falls. Because these more roundabout projects are not sustainable given the unchanged natural rate of interest, the resulting unsustainable boom requires correction in the form of a corresponding reversal. This is all standard fare for Hayek's treatment of the business cycle theory in that it follows his "forced saving" approach in which the credit-induced distortion of the capital structure comes at the expense of a (temporary) reduction in the flows of final (consumers') goods. The relevant assumption which produces this result is that there is no give in the total quantity of goods the economy is capable of producing because the system is operating at full employment of all factors. According to Mises (1966), however, the boom is characterized by both over-investment *and* over consumption. Garrison (2004) reconciles the Hayekian and Misesian versions by allowing the economy to temporarily produce beyond its production possibilities frontier (PPF), in contrast to Hayek's implied treatment of movement along the PPF during the boom followed by movement inside the PPF during the bust, a twist that seems more consistent both with business cycle empirics and with providing an explanation of the lure of credit expansion by policy makers and the support of such policies by the public.

[1] Caldwell (2003), for example, principally sees *The Sensory Order* in the context of Hayek's "studies in the abuse of reason."

Finally, Steele devotes a chapter to Hayek's thinking on international monetary relations, a subject too often left untouched by Hayekian scholars, which is followed by a chapter on "Market Standards for Money." These chapters, respectively, center on Hayek's *Monetary Nationalism and International Stability* of 1939, which reflected his repudiation of Keynes's "nationalistic approach to monetary management in *The General Theory*," and his more recent writings on "the practical problem of discovering the most benign form of monetary authority" (Steele, p. 191).

In the span of about 220 pages, Steele provides a useful and clearly written summary of the core of Hayek's ideas. And perhaps it goes without saying that in a body of work as vast and challenging as Hayek's, there is ample room for interpreters to disagree with bits and pieces of Steele's treatment. Even if that is the case, Steele's book nevertheless stands up well. And while the book is principally a restatement of Hayekian ideas, as opposed to arguing for new interpretations or engaging in a critical assessment of Hayek, it does its job rather well. For that reason alone, it is well worth reading by established Hayekians and, perhaps especially, by newcomers and students seeking to discover what the fuss over Hayek is all about.

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24 August 2008
Available online 2 September 2008

doi:10.1016/j.jebo.2008.08.003