Friedrich von Hayek: The Socialist-Calculation Debate, Knowledge Arguments, And Modern Economic Development

Cara A. Elliott
Gettysburg College
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Friedrich von Hayek: The Socialist-Calculation Debate, Knowledge Arguments, And Modern Economic Development

Abstract
At the close of the nineteenth and the commencement of the twentieth century, socialism began to gain momentum as a large-scale movement in Europe and the United States. This popularity was supported by an increased influence of the working class in society, which put pressure for representation upon European parliaments and began to secure concrete improvements in labor protection laws. Moreover, socialist proponents looked hopefully towards the living example of the Soviet Union, which began its socialist experiment in 1917 following the success of the Bolshevik Revolution. Socialism, which found its economic grounding in the legacies of such men as David Ricardo and Karl Marx, tended to encourage a more central and vital role for government intervention in the economy. Thus economists who favored a socialist-oriented change in contemporary societies began to develop theories intended to address such issues as “where, when and how the state should intervene in economic life” and how societies might be successfully reorganized so as to be based upon these new precepts. [excerpt]

Keywords
socialism, David Ricardo, Karl Marx, government intervention, competitive market, entrepreneur

This article is available in Gettysburg Economic Review: http://cupola.gettysburg.edu/ger/vol5/iss1/6
Introduction

At the close of the nineteenth and the commencement of the twentieth century, socialism began to gain momentum as a large-scale movement in Europe and the United States. This popularity was supported by an increased influence of the working class in society, which put pressure for representation upon European parliaments and began to secure concrete improvements in labor protection laws (Backhouse, 2002: 269). Moreover, socialist proponents looked hopefully towards the living example of the Soviet Union, which began its socialist experiment in 1917 following the success of the Bolshevik Revolution. Socialism, which found its economic grounding in the legacies of such men as David Ricardo and Karl Marx, tended to encourage a more central and vital role for government intervention in the economy. Thus economists who favored a socialist-oriented change in contemporary societies began to develop theories intended to address such issues as “where, when and how the state should intervene in economic life” (Backhouse, 2002: 269) and how societies might be successfully reorganized so as to be based upon these new precepts.

These developing theories contrasted with those of the opposition contingent of both past and contemporary economists. As a result, a rich discourse of opposing ideologies appeared in the early decades of the twentieth century, coming from such men as Otto Neurath, Henry D. Dickinson, Maurice Dobb, and Oskar Lange on the socialist side, and Ludwig von Mises and Friedrich von Hayek on the opposing. The debates, which focused on such subjects as the role
of the competitive market, central planning boards, prices, and entrepreneurial knowledge, were valuable to the participants not only in terms of their motives, which were often political, but also in that the very nature of the debates continuously challenged the economists and their theories. This encouraged deeper analysis, understanding, and innovation in the theories developed by economists on both sides of the dispute, allowing for stronger and more refined arguments. Oskar Lange himself, when speaking about a challenge made to socialist theories by Ludwig von Mises, wrote, “Socialists have certainly good reason to be grateful to Professor Mises, the great *advocatus diaboli* of their cause. For it was his powerful challenge that forced the socialists to recognize the . . . very existence of . . . a problem [in the system]” (Lange, 1938: 57). The theories that appeared at this time, especially with regards to Friedrich von Hayek’s “Knowledge Arguments,” caused significant intellectual reverberations that continue to have implications in the socialist debate and economic discipline as a whole in recent economic dialogues.

Hayek’s arguments are especially significant in their challenge to the traditional neoclassical conception of static equilibrium and of perfectly informed, uniform actors in a free-market economy that has “reached” this state of equilibrium. Hayek’s contribution is in conceptualizing a dynamic, consistently changing equilibrium that responds to and thus account more effectively the actions of individuals in those economies. This conceptualization allows economists to visualize and analyze market economies in a much more dynamic fashion and is particularly vital with regards to the current state of affairs in free-market societies worldwide. The world is in the midst of a charged atmosphere still experiencing the shocks of the 2008 financial crisis, the essential collapse of countries such as Greece and Ireland last year, and a generally pessimistic attitude about the ability for Western, free-market economies, especially the United States, to continue to
compete with countries experiencing growth at exponential rates, particularly China, a country that continues to follow a socialist model – albeit an evolved, complex one. The significance of Hayek’s arguments will not be in their ability to be any sort of band-aid to solve the Western world’s problems. However, they are also challenging, thought-provoking, and non-traditional arguments which could exist in a larger forum of debate and exchange that focuses upon forward-thinking economic theories that could help to revitalize stagnant or struggling free-market economies in the modern world.

This paper will explore, first, the “socialist-calculation debate” of the early decades of the twentieth century between such scholars as Ludwig von Mises, Oskar Lange, and Friedrich von Hayek. One product of that debate was Hayek’s “Knowledge Arguments,” which will be the second topic of focus in the paper. Finally, the third section of the paper will demonstrate different examples of theories developed in various economics circles in recent years, with special attention to those who claim foundation in Hayek’s work. These papers studied in this section include Israel M. Kirzner’s “Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach” (1997) and Fikret Adaman and Pat Devine’s “On the Economic Theory of Socialism” (1997).

The Socialist-Calculation Debate

The Socialist-Calculation Debate, consisting of a series of arguments on the subject of the “possibility of a rational economic calculation in a socialist economic system” (Adaman and Devine, 1997: 55), opened with Enrico Barone’s 1908 paper “The Ministry of Production in the Collectivist State,” which outlined a mathematical model for a collectivist state, and continued into the 1920s and 1930s with the opposing literature of the Austrian and Socialist schools (Adaman and Devine, 1997: 55).
German Literature, 1920s

In 1920, Ludwig von Mises began the “German-language” segment of the debate with his “Economic Calculation in the Socialist Commonwealth,” originally published in Archiv für Sozialwissenschaften 1920, which challenged a number of proposed socialist models (Mises, 1972: 75-91). Mises sought to respond especially to Otto Neurath, who had written a paper in 1919 outlining a calculation theory based upon the example given by “war economy.” Neurath argued that during wartime, government assumes responsibility for the planning of material distribution, suppressing the market price system characteristic of peacetime. Moreover, production in wartime is not profit-seeking – which “leads to recurrent periods of over-production and unemployment” (Caldwell, 1997: 1859) – but rather works to achieve maximum productive capacity. Neurath asserted that the “central planning” that occurred during war should continue during peace, with the government acting as a central “giant enterprise” (Caldwell, 1997: 1859). He then went so far as to argue that money would be unnecessary in this new society in which “production would be driven by objectively determined needs rather than the search for profits . . . [and] all calculation regarding the appropriate levels of inputs and output could be handled in ‘natural’ physical terms” (Caldwell, 1997: 1859).

Mises, a monetary theorist, especially disagreed with Neurath in terms of his plans for the dissolution of the monetary system, mentioning that, as money serves as a uniform means of exchange across different factors of production, “for the practical purposes of life monetary calculation always suffices. Were we to dispense with it, any economic system of calculation would become absolutely impossible” (Mises, 1972: 79). However, he also hoped to outline an obstacle for the conceptualization of the socialist order with or without the existence of money, so his response to Neurath went on to provide a model in which socialist states’
ownership of capital, or factors of production, was assumed, therefore negating any competitive market for these goods. Mises saw this inclination as making it difficult, or perhaps impossible, for socialist states to assign value to inputs, and, thus, outputs (Caldwell, 1997: 1859). Essentially, without a competitive market, which, through the processes of supply and demand naturally and continuously determines prices and acts as an economic calculator of sorts, Mises argued, “in the socialist commonwealth every economic change becomes an undertaking whose success can be neither appraised in advance nor later retrospectively determined. There is only groping in the dark. Socialism is the abolition of rational economy” (Mises, 1972: 80).

**English Literature, 1930s**

In the following decade, partly in response to a popular shift towards socialist thought that occurred in Britain as demonstrated by a variety of groups, including political and labor parties as well as academics (Caldwell, 1997: 1859-60), English literature took up the debate. Friedrich von Hayek, who was at the forefront of this movement, built and elaborated upon arguments begun by Ludwig von Mises during the 1920s and formulated a series of critiques of socialism, addressing in his works the arguments of such men as Henry D. Dickinson and Maurice Dobb, and later, Oskar Lange. One of Hayek’s first obstacles was to tackle Dickinson’s proposal of the possibility of mathematical calculation to determine values in a socialist society through the employment of Léon Walras’ system of equations and the utilization of the “auctioneer.” In Dickinson’s plan, a central planning board using this “Walrasian set of equations” would take on the function of the market as the determinant of prices (Caldwell, 1997: 1860). Hayek, in response, outlined a variety of issues with Dickinson’s system: first, the collection and processing of large amounts of necessary information; second,
the difficulty associated with formulating and solving the required equations; and, third, the static nature of such a system and its inability to compete with the natural adaptations of a free market (Caldwell, 1997: 1860).

Hayek continued this trend of underlining the difficulties associated with suggested socialist solutions in his critique of Maurice Dobb’s contention that “if consumption decisions were subjected to central control, most of the problems associated with central planning would be alleviated” (Caldwell, 1997: 1861). Hayek rejected this claim, arguing that this change would likely be unacceptable to a society such as Great Britain, or others like it, which was accustomed to a system of consumer freedom. Also in this critique, Hayek addressed “market socialism,” which had not been concretely proposed as yet but was in theory an alternative to what its adherents saw as a distorted capitalist system, in which the market was no longer truly free or competitive, but rather dominated by corporations and monopolies (Caldwell, 1997: 1861). By imagining a system in which “managers of monopolized industries [would be] directed to produce so that prices covered marginal costs . . . duplicating the results of competitive equilibrium,” (Caldwell, 1997: 1861) Hayek addressed a few issues which, at that point, were rather underdeveloped, but which he would go on to better conceptualize in his later works. These obstacles were the difficulty for a socialist order to replace entrepreneurs acting in a free market, and the issue of managerial incentives in a society that was not profit-oriented (Caldwell, 1997: 1861).

The Lange Debates On Market Socialism

Oskar Lange, a Polish immigrant based in the United States, also wrote on the subject of market socialism; however, he acted as its ardent advocate, entering the discourse during the latter half of the 1930s to respond first to Mises and later to Hayek. In his paper “On the Economic Theory of Socialism,” first
published in *Review of Economic Studies* in 1936-7, and again as a book in 1938, Lange’s framework proposed a free market for both consumer goods and labor in conjunction with public ownership of capital and other means of production, which he argued would reduce – although not eliminate – social gaps, given the lack of income disparity that originates in private capital ownership (Lange, 1972: 92-3). Lange’s model required given prices determined by a Central Planning Board so as to allow for a “subjective equilibrium condition” in which there is a “combination of factors which minimizes average cost, [a level of] output which equalizes marginal cost and the price of the product, and the best allocation of the ultimate productive resources” (Lange, 1972: 97). Lange’s model then necessarily rejected Mises’ argument that the market must be the determinant of prices, arguing instead that the “parametric function of prices” which occurs in competitive markets is retained in a system of fixed prices (Lange, 1972: 98-9).

Lange’s paper also addressed and refuted Hayek’s computation argument (in which Hayek outlined the difficulty of computation given the breadth of required information for equations and subsequent issue of solving those equations). Lange claimed that “the only equations which would have to be ‘solved’ would be those of the consumers and the managers of production” whereby, to solve these equations, consumers need only to spend their income and managers of production need only to produce at those levels determined by the equilibrium requirements as previously defined in this section (Lange, 1972: 103). Moreover, those prices required by the managers of production to determine their production levels should be subject to a “trial and error” method of adjustment for price finding, in which the prices are raised or lowered according to whether there is a surplus or shortage of their respective goods. Given their broader knowledge base and attention to the market, Lange believed the Central Planning Board setting the prices and making the necessary adjustments would actually be better suited for
this role than private entrepreneurs, allowing for a shorter process of movement towards equilibrium than occurred the competitive market (Lange, 1972: 103-104).

While Mises never explicitly responded to Lange’s challenge, he continued to reject socialist proposals in his writings, focusing on refuting the socialist proposition of a centrally planned mechanism for determining prices. He saw prices as having a very specific determinant; that is, “[prices are] brought about by the interplay of the valuations of all individuals participating in the operation of the market” (Mises, 1966: 331, cf. Caldwell, 1997: 1863). This entrepreneurially-based scope allowed for an adaptive market that socialism simply could not reproduce as “the ever-changing structure of prices that exists within a market system, the messy groping that appears so archaic, ends up being a passably efficient system for revealing relative scarcities” (Caldwell, 1997: 1863). In this system, the entrepreneur is “the essential actor of the piece” (Caldwell, 1997: 1863) reacting to and, in fact, causing changes in the market; for example, “where shortages have existed . . . the resulting price increases [are] driven by entrepreneurs recognizing, in the face of the uncertainty of the real world, the profit opportunities available” (Kirzner, 1997: 70). According to Mises, the competitive market system, which tends to include explicit private property laws and a propensity towards profit-maximizing actions, is a necessary prerequisite to the role of Mises’ entrepreneur, therefore, in socialist economies, the equilibrating actions of the entrepreneur would be null and void.

Hayek, like Mises, continued to write arguments against socialist systems, and, in his own response to Lange, not only made use of his earlier addressed objections to the mathematical calculation system proposed by Dickinson, but also outlined new issues, such as the nature of equilibrium and the role of knowledge in the market.
Hayek’s Knowledge Arguments

Hayek’s “Knowledge Arguments,” a series of papers published in the late 1930s and throughout the 1940s, explored the nature of equilibrium and especially the process by which that state is reached, and, in so doing, issued a challenge to both traditional assumptions about static equilibrium and socialist theorists. His argument focused on the role of knowledge in competitive markets, responding directly to Lange’s contention that a Central Planning Board would better determine prices than individuals participating in a naturally fluctuating free market. Many scholars have asserted that the arguments presented in these pieces were “seminal . . . both in development of Hayek’s ideas and in [their] implications for the calculation debate” (Caldwell, 1997: 1865). His ideas were first presented in his 1937 “Economics and Knowledge,” and were further refined and developed in later works such as his 1945 “The Use of Knowledge in Society.”

“Economics and Knowledge,” 1937

“Economics and Knowledge,” which was featured in a 1937 issue of Economica, sought to outline a more definite and clear concept of equilibrium. Essential to this concept was Hayek’s departure from a “pure theory of stationary equilibrium,” which neither accounts for change nor for time and also assumes uniform, perfect knowledge among individuals, making the models based upon these premises inapplicable to real world situations. Hayek’s study of knowledge, denoted as “data,” begins with a distinction between “objective real facts, as the observing economist is supposed to know them,” and “subjective [data] as things known to the persons whose behavior we try to explain” (Hayek, 1937: 39). Thus, a state of equilibrium only lasts so long as the “external data correspond to the common experiences of all the members of the society” (Hayek, 1937: 41). Understanding equilibrium in this manner breaks the restraints of stationary models.
and allows for equilibrium analysis to be applied to more realistic, “progressive” society. Also important to this line of argument, however, is Hayek’s careful mention that his distinction does not intend to imply that there is not a relationship between subjective data, or individual plans, and objective data, or external facts. Rather, “subjective data of different people [would never] correspond unless they were due to the experience of the same objective facts” (Hayek, 1937: 43).

Furthermore, this correspondence of knowledge and intentions by entrepreneurs in the market as Hayek understands it is an evolutionary process with a consistent tendency towards equilibrium as economic actors “come more and more into agreement . . . [or] become more and more correct” (Hayek, 1937: 44). This tendency, (which does not necessarily ever lead to an absolute state of equilibrium) or the process “by which individual knowledge is changed,” is Hayek’s next subject. He asserts that economists should remember “how little we actually know about the conditions under which an equilibrium will ever be reached” (Hayek, 1937: 48). This limitation derives from a “‘constancy of the data’” as a condition of equilibrium. This constancy does not exist in the real world, as individuals consistently change their expectations and subsequent actions “as they gain experience about the external facts and other people’s actions,” leading to a continuous and seemingly infinite process of changes (Hayek, 1937: 47-8).

While this process is of interest to Hayek, it is in the ensuing analysis of the nature of knowledge – “how much and what sort different individuals possess” – that his most interesting insights come to light (Hayek, 1937: 48). He begins by assuming individually “‘relevant knowledge,’” which, when taken together, allow for a “spontaneous interaction of a number of people, each possessing only bits of knowledge, [to] bring about a state of affairs in which prices correspond to costs” – in other words, a “Division of Knowledge” similar in function to the much-studied division of labor (Hayek, 1937: 49, emphasis in the original). This
knowledge, is, again, consistently changing as individuals become aware of new facts. It is a learning process that may occur either completely by accident or through the unexpected results of any executed action. Therefore, “it is only relative to the knowledge which a person is bound to acquire in the course of the carrying out of his original plan and its successive alteration that an equilibrium is likely to be reached” (Hayek, 1937: 51). In other words, Hayek argued that a greater understanding and, moreover, refinement of this “division of knowledge” theory would allow for economists to better comprehend the equilibrating nature of the market. Hayek saw this issue as the central question of all social sciences, how the combination of fragments of knowledge existing in different minds can bring about results which, if they were to be brought about deliberately, would require a knowledge on the part of the directing mind which no single person can possess. To show that in this sense the spontaneous action of individuals will under conditions which we can define bring about a distribution of resources which can be understood as if it were made according to a single plan, although nobody has planned it, seems to me indeed an answer to the problem which has sometimes been metaphorically described as that of the ‘social mind’ (Hayek, 1937: 52).

Hayek concludes that, economists, then, should attempt to find a way to deliberately put to use all of this knowledge so as to better fathom the evolutionary process of equilibrium and to formulate a model which would, in application, allow for a closer state of absolute equilibrium than present models and states. Hayek continued to refine these theories in the next few years of his career, and thus Hayek’s later work, “The Use of Knowledge in Society,” delves deeper into, and therefore more clearly expresses, the arguments formed in the 1937 paper.

“The Use of Knowledge In Society,” 1945

Published in the fall 1945 issue of The American Economic Review, “The Use of Knowledge in Society” begins by asking the question, “What is the problem we wish to solve when we try to construct a rational economic
order?" (Hayek, 1945: 519). Hayek, in contrast to the traditional practice of seeking to solve this economic calculation problem by employing a system of given preferences and perfect knowledge, underscores that a proposed calculation which at least attempts to be applicable to society must make use of the “dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess” (Hayek, 1945: 519). This problem naturally deals with the concept of planning – in the traditional definition of the word, taken to mean the decisions pertaining to the allocation of resources within a society – and, more specifically, the “planners” making those decisions. The debate, then, over the advantages of either central planning, in which there is one plan determined from above, or competition, in which there is decentralized planning by many different individuals acting in the market, should be resolved by answering the question of which system makes better use of this dispersed knowledge. In order to make this determination, a better definition of the different kinds knowledge and their relative significances is required.

Hayek differentiates between scientific knowledge and tacit knowledge, defining the former as “those which we should with greater confidence expect to find in the possession of an authority made up of suitably chosen experts” and the latter as “more likely to be at the disposal of particular individuals . . . the knowledge of the particular circumstances of time and place” (Hayek, 1945: 521). While greater emphasis is generally placed upon scientific knowledge, Hayek argues that tacit knowledge should hold equal import given that “practically every individual has some advantage over all others in that he possesses unique information of which beneficial use might be made” (Hayek, 1945: 522). This information is formed by way of a wide array of sources, such as popular or localized publications or advertisements; isolated interactions between entrepreneurs; or individual desires – all “special knowledge of circumstances of
the fleeting moment not known to others” (Hayek, 1945: 522). Moreover, through the process of acting in the competitive market, knowledge is consistently and continuously changing, constituting an ongoing discovery process. The nature of tacit knowledge, then, is such that it cannot be expressed numerically, making it impossible to integrate in a calculation-based socialist order, while at the same time acting as a natural component of a responsive capitalist system (Hayek, 1945: 524).

The second half of Hayek’s 1945 paper focuses upon arguments in support of the price mechanism. Hayek argues that prices function not only a medium of exchange but also as a conveyor of information. They are a “kind of machinery for registering change, or a system of telecommunications which enables individual producers to watch merely the movement of a few pointers . . . in order to adjust their activities to changes of which they may never know more than is reflected in the price movement” (Hayek, 1945: 527). The nature of the price mechanism is one the primary tenets of Hayek’s argument against those who would advocate for “‘conscious direction,’” (central planners or socialist economists) because one of the most miraculous features of the price mechanism is that it has “evolved without design” (Hayek, 1945: 527). In this sense, it is one of many social institutions which could not be instantaneously replicated, or worse, replaced with different systems, because they exist as part of an evolutionary process consisting of many generations of improvements and development in which success is achieved “by building upon habits and institutions which have proved successful in their own sphere and which have in turn become the foundation of the civilization we have built up . . . [having originally] stumbled upon [them] without understanding” (Hayek, 1945: 528).

From Hayek’s perspective, then, the socialist proposal was doomed from the start, because it intended to transform society at its very roots, therefore
undermining and, in fact, nullifying those evolutionary processes Hayek outlined. The contemporary implications of Hayek’s “Knowledge Arguments” were therefore not small; he underscored an issue for both mainstream and alternative school proponents by challenging traditional equilibrium assumptions as well as outlining a system in which the applicability and efficiency of socialist models could not compare to competitive market processes which encouraged the best utilization of dispersed knowledge. The exact nature and significance of these implications continue to be debated and built upon in modern economic circles.

**Modern Implications of the Knowledge Arguments**

The concepts expressed in Hayek’s Knowledge Arguments – dispersed knowledge among individuals; the discovery process surrounding that knowledge in a competitive market setting; the nature and role of tacit knowledge; and the function of prices as conveyors of information about the market – have been significant in different ways for different schools of modern economists.

**The Austrian School**

The modern Austrian school’s conceptualization of the market is influenced by both Mises’ lesson of the market being driven by profit-oriented entrepreneurs as well as Hayek’s contribution of an understanding of the role, nature and continuous augmentation of knowledge in the market (Kirnzer, 1997: 67). Additionally, Austrians have learned to appreciate the function of competition with regards Hayek’s discovery procedure in that “for the modern Austrian approach, this perception of competition as the dynamic, driving force for discovery in the market process has become central” (Kirzner, 1997: 69). The Austrian School, then, represents a break with standard neoclassical economics in that the Austrians do not see the static equilibrium model that focuses its interest on the *endpoint* as being sufficient to explain or understand what happens
in actual market economies. Moreover, while neoclassical economics no longer tends to adhere to the time-honored assumption of perfect information, it has done comparatively little to address the role of the discovery process as outlined in Hayek’s Knowledge Arguments.

In this sense, the Austrian school’s work exists as the most orthodox modern application of Hayek’s theories, as Hayek’s “idea that ‘the pure theory of stationary equilibrium’ is inadequate as a tool for understanding the workings of a market economy, and that it should be replaced by a view of the market as a competitive-entrepreneurial process for the discovery and coordination of knowledge, has become a central tenet of Austrian thought” (Caldwell, 1997: 1866). The Austrian school is the best representation of Hayek’s legacy within modern economic circles, and it is the only school that employs Hayek’s arguments together in understanding the market, equilibrium, and the processes behind each of these phenomena.

**The Socialist School**

The Knowledge Arguments have been significant for modern socialist economists as well, especially for those that have made attempts to reconcile Hayek’s arguments with socialist systems. For example, in Fikret Adaman and Pat Devine’s “On the Economic Theory of Socialism,” printed in a 1997 issue of *New Left Review*, the authors advocate for a system of participatory planning, in which “the values of individuals and collectives interact and shape one another through a process of cooperation and negotiation . . . [enabling] tacit knowledge to be articulated and economic life to be consciously controlled and coordinated” (Adaman and Devine, 1997: 75). Their proposed model differentiates between “market exchange” and “market forces,” in which market exchange is taken to mean “transactions between buyers and sellers” and market forces refers to
“the process whereby changes are brought about in the underlying allocation of resources, the relative size of different industries, the geographical distribution of economic activity” (Devine, 1992: 79-80, cf. Adaman and Devine, 1997: 76).

Market exchange, then, encourages information to be generated through the participation of individuals acting in the market, which then makes the best use of existing productive capacity while also determining any necessary changes that will need to be made in the structure of that capacity for better future usage. Market forces, on the other hand, will not be incorporated into the participatory setting, planned instead from above. Through this combination of free participation in the market with planning from above, the authors attempt to express a model in which Hayek’s concept of tacit knowledge can, in fact, be incorporated into a socialist economy. The issue with this model is that Hayek’s concept of an individual acting in the market resembles Mises’ profit-motivated entrepreneur, and so does not tend, as in Adaman and Devine’s model, to “promote cooperation and recognition of interdependent common interest” (Adaman and Devine, 1997: 78), but rather makes choices that are motivated by profit (Kirzner, 1997: 78). This orientation towards profit is the driving force behind Hayek’s discovery process, thus, while Adaman and Devine’s system accounts for tacit knowledge, it still misses some of Hayek’s main points.

Adaman and Devine, however, differ from many other socialist economists in at least seeking to integrate Hayek’s Knowledge Arguments into their models. There have been a variety of other socialist models recently proposed which do not take into account the insights of Hayek’s work, especially ignoring the role of tacit knowledge. One of these models is outlined in Pranab Bardhan and John Roemer’s work, expressed in such papers as their 1992 “Market Socialism: A Case for Rejuvenation,” which focuses on the issues of calculation and motivation instead of knowledge, and, through a “bank-centric
system of insider monitoring” seeks to solve the managerial motivation problem (Bardhan and Roemer, 1992: 105). Echoing Oskar Lange’s claims, their system’s “main bank and the group partners . . . have more “inside” information . . . [and] are likely to be capable of detecting . . . trouble more easily than a diffuse body of stockholders” (Bardhan and Roemer, 1992: 109). In this sense, Bardhan and Roemer outline a model which may seem applicable to real world situations, but, like Lange before them, do not account for the role of knowledge as expressed by Hayek in their work. The differences between Adaman and Devine and Bardhan and Roemer’s theories, which both exist in the realm of market socialist theories, illustrate the nature of the debate that surrounds socialism today, even from within, as socialist economists continue to search for a working model which accounts for their opponents’ challenges.

Conclusion

Friedrich von Hayek’s Knowledge Arguments stand as both some of his most insightful and significant work as well as noteworthy developments in the greater scope of economic thought as a whole. They had implications both within Hayek’s own contemporary economic circles, especially with regards to the socialist-calculation debate, and continue to influence economic theorists today. The propagation of Hayek’s concepts is particularly evident in the “alternative” Austrian school of thought, which, like Hayek, challenges neoclassical standards to move closer to real world situations so as to create applicable, working models for market economies. Also notable, modern socialist economists such as Fikret Adaman and Pat Devine have worked to address Hayek’s theories, attempting to integrate at least some of the ideas into a workable socialist model.

This continuing debate mirrors that of the development of the Knowledge Arguments themselves. Hayek was a key economist among those participating
in the socialist-calculation debate, and, therefore, it follows that the Arguments developed as a product of that debate, in one of his many attempts to challenge his opponents. As Israel Kirzner maintains, the socialist-calculation debate was a “catalyst in the development and articulation of the modern Austrian view as a competitive-entrepreneurial process of discovery . . . it was through the give-and-take of this debate that the Austrians gradually refined their own position” (Kirzner, 1988: 1, cf. Lavoie, 1985, cf. Caldwell, 1997: 1861) In this sense, the evolution of the Knowledge Arguments demonstrates a broader tendency of economists to rely upon debates within and between different circles of thought to better develop their theories and, ultimately, to come to a more complete understanding of the world around them, and, more importantly, apply that understanding with the hopes of improving that world.
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