

## Leftists for Hayek

What happens when a socialist applies the insights of Austrian economics?

Steven Horowitz

*Socialism After Hayek*, by Theodore A. Burczak, Ann Arbor: University of Michigan Press, 172 pages, \$19.95

IN 1995 THE economist Peter Boettke published a paper titled "Why Are There No Austrian Socialists?" He intended to prod the devotees of Ludwig von Mises (1881-1973) and F.A. Hayek (1899-1992), the two best-known exponents of the pro-market "Austrian" approach to economics, into articulating their arguments in ways that did not reduce them to ideological shoe pounding. But he also wanted to demonstrate to leftists that the Austrians' arguments were not mere dogma, that they were a series of analytical and empirical propositions about how the world worked that happened to lead to the conclusion that, if a healthy and wealthy economy is one of our goals, free markets are the best way to reach it.

The question in Boettke's title was a rhetorical one; he wasn't actually proposing a Misesian socialism. But in the intervening decade, Austrian economics in general and Hayek's work in particular have experienced a newfound, if sometimes grudging, respect. Several scholarly biographies of Hayek have appeared. The Society for the Development of Austrian Economics now runs the best-attended panels at the annual Southern Economic Association meetings, and "Hayek Studies" is a growth industry across the social sciences and even in neuroscience. Now, with the publication of Theodore Burczak's *Socialism After Hayek*, a scholar on the left has

confronted Hayek's critique of socialism in a sympathetic and sustained way. Burczak, who teaches economics at Denison University, has produced a slim but very deep volume that contains the most fundamental challenge to Hayek's defenses of the market since his debates with the Polish socialist Oscar Lange in the 1930s. The book should reopen some conversations that have been closed for too long.

Lange and his allies argued that the complexity of modern society and the triumphs of modern science meant that the unplanned "anarchy" of capitalist production had to be replaced or supplemented by scientific management. Hayek argued that the very complexity of a capital-using economy is what would doom attempts to manage it. Burczak's market-socialist hybrid recognizes the power of Hayek's critique of central planning and markets' ability to coordinate the decentralized activities of individual people. Rather than substituting planning for markets, Burczak wants to *supplement* the market: He would stake all adult citizens with a rather large hunk of tax-funded wealth, and he would mandate worker ownership and management of firms. These changes, he argues, will enhance the chances that people will live "choiceworthy" lives—that they'll have the means and opportunities to make substantive decisions about the directions of their lives, as opposed to, say, choosing between starvation or working for minimum wage.

**H**ayek's critique of planning first came to the fore during what is known as the socialist calculation debate. Ludwig von Mises opened that conversation with a 1920 article on economic calculation and his 1922 book *Socialism*, both of which argued that no state could allocate resources rationally in the absence of private ownership of the means of production—or, more colloquially, that socialism in the classic sense was "impossible." Only private ownership, Mises argued, leads to a market that can produce meaningful prices, which are necessary to help people decide which of the many alternative uses of capital are most productive. For Mises and those who built on his arguments, the short-

## >> Invasion of the Prostitots

shirts does not make it so.

You could as easily tell the opposite story, one in which those thongs are the sartorial equivalent of girl power. Prostitot culture could be the anti-rape, encouraging girls to take control of their sexuality before others do. It's not at all likely, but the narrative is no more divorced from reality, or bereft of explanatory power, than its APA-stamped counterpart.

Without any mechanism to explain how precocious taste in clothes turns to self-loathing, it's probably safest to assume that the kids' department at Nordstrom's and the darkest recesses of American culture exist a world apart. Girls, as they always have, will alternately embrace the novelties of girlhood and struggle against the mythologies of gender. Parents and *soi-disant* experts will continue to cluck their tongues. And while they're railing against the vagaries of fashion, they should avoid dressing their disapproval in the trappings of social science.

Kerry Howley ([Khowley@reason.com](mailto:Khowley@reason.com)) is an associate editor of *reason*.



ages and waste that plague real-world socialist economies are not incidental errors that could be corrected with better management; they are problems endemic to socialist institutions.

Lange replied in a 1936 paper, "On the Economic Theory of Socialism." Neoclassical economic theory, he argued, demonstrated that a system combining public ownership of capital with choice in consumer goods and occupations could produce a general equilibrium. The concept of "general equilibrium" was relatively new at the time but later became central to modern microeconomics; it is best understood as that state of affairs in which prices for both consumer goods and inputs enable all market participants to maximize utility or profit, and in which all resources are allocated with perfect efficiency. This combination of markets in consumer goods with public ownership of capital was dubbed "market socialism," and Lange's claim that Mises was wrong to declare socialism impossible carried the day for about 50 years. Much as Burczak pays tribute to Hayek in developing his modern version of market socialism, Lange quipped that future socialist planners should erect a statue of Mises to thank him for asking the questions they had now begun to answer.

In a series of papers during the next decade, Hayek responded to Lange and to others making similar arguments. To do so, he attacked the idea of general equilibrium itself. When economists constructed their models of how markets would reach general equilibrium, they would assume, for the sake of the model, that everyone would have equal access to information about the economy. Lange, Hayek argued, was assuming that a socialist planning board would

have all this knowledge at its disposal. But in a dynamic world where the information relevant to consumers and producers is dispersed and constantly changing, that isn't a reasonable assumption. The proper comparison stacks the ability of actual competitive markets against that of actual planners acting without a market, without assuming either has the knowledge assumed by economic models. Which system is better able to discover and convey the information that advanced production requires? (It is notable that the very same critical questions Hayek asked apply with near-equal force to many of the models mainstream economists use to defend both markets and particular forms of intervention. That's another reason Burczak is attracted to Hayek: They share a deep skepticism about the modernist, mechanistic assumptions that dominate the field.)

#### **In these papers, Hayek first**

articulated a theme that would become central to the rest of his life's work: that economic coordination and economic growth are really a problem of what he called the division of knowledge. Market prices make the often private knowledge spread among billions of individuals socially accessible to others. As Hayek put it in 1968, economic competition is a "discovery procedure." Markets enable us to discover and make socially usable knowledge that would, under any other system, be inaccessible; they thus make it easier to coordinate the plans of individuals, households, and firms.

What consumers value often depends more on context than on the physical qualities of the good: An SUV might be highly valued by a suburban resident, while a Manhattanite,

even one with more wealth, might value the vehicle less, especially when thinking about having to park it. For automobile makers to know how many of such vehicles to produce and how to price them, they need to know far more than the cost of the physical components; they need to have access to individuals' subjective evaluations. In addition, we sometimes cannot even articulate our reasons for valuing what we value, and we need to go beyond language in making that tacit knowledge socially available. It is our decisions to buy, and not to buy, that through ever-changing prices enable us to make our contextual and often tacit knowledge accessible to others.

It was not until the 1980s and '90s, when the failures of nominally socialist regimes around the world were too obvious to overlook and when the revival of interest in Austrian economics further refined these arguments, that Hayek and Mises were more widely acknowledged to have been correct—even, famously, by the socialist economist Robert Heilbroner, who wrote in 1990 that "Mises was right." In the years since then, the debate has largely quieted. Hayekians have taken comfort in their belief that either nothing remained to be said or no one on the left understood Hayek well enough to fashion a real response.

**B**urczak's book demonstrates that this sense of security was a false one. Taking seriously what he terms Hayek's "postmodern economics," Burczak combines the Austrian's critique of centralized economic planning with the "capabilities" work of the Nobel Prize-winning economist Amartya Sen and the philosopher Martha Nussbaum, and with the literature on employee ownership and

self-management by a number of economists on the left. The result is an alternative vision of socialism that he believes can withstand Hayek's arguments.

To get there, Burczak offers a fascinating reading of Hayek that lines up nicely with the work of many younger Austrian economists, including myself, the aforementioned Peter Boettke, and others associated with the late Don Lavoie and George Mason University. Burczak emphasizes that Hayek's economics is distinctly different from the mainstream

of the discipline in that it takes seriously the fact that human beings are, to some degree, socially constructed. That is, we are born into and shaped by institutions we did not design, especially language, but also markets, money, moral rules, the common law, and countless different social norms and practices.

Combined with Hayek's conception of knowledge as fragmentary, uncertain, and often tacit, this understanding produces a postmodern view of the market that is, in Burczak's words, "a type of dialogical process

that creates an evolving set of intersubjective agreements and disagreements about efficient methods to produce ever-changing desirable goods." Rather than seeing markets as mechanisms achieving perfectly efficient equilibria (a modernist metaphor if ever there was one) in which everyone gets what he wants and no more trades need be made, Burczak, channeling Hayek, argues that markets—and all forms of knowledge—are at any moment imperfect and transient in the face of a variety of subjective interpretations. Yet over time, he and Hayek claim, markets systematically filter in more accurate knowledge about the preferences of other individuals and the scarcity of resources, and in so doing they filter out error. Just as scientific processes gradually enhance our knowledge even if at any given moment they cannot claim to possess Truth, markets continually enhance value by moving goods and services to more highly desired uses but at no point can be said to have created Value, in the final, finished sense that equilibrium-bound socialists like Lange thought possible.

**Writing from the left, Burczak agrees** that Hayek was right in the debate with Lange. Knowledge is more than objective, technical information about, say, the components of an automobile. It is composed of the judgments and wisdom that emerge through human communication and interaction. The institutions that facilitate that communication, such as markets, are necessary to human flourishing.

Having accepted the Hayekian argument that the market is necessary, Burczak begins his critique of Hayek by asking whether his legal theory, and his defense of the market,



Socialism After Hayek (cover detail)

are as “neutral” as Hayek believed.

In particular, Burczak challenges Hayek’s vision of social rules emerging through an unplanned but orderly process of judge-made common law, thus providing a neutral, socially beneficial legal framework for the market. For Burczak, the evolution of the common law is inevitably influenced by the subjective knowledge and values of jurists. Burczak also suggests that markets, specifically credit markets, fail to create conditions under which all actors can equally take advantage of the opportunities they uniquely perceive. If true, the latter point would undermine Hayek’s contention that markets “improve the life chances of anyone chosen at

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random.” The result of both of these problems, Burczak argues, is that free markets will produce inequities in wealth and opportunity that undermine the claim that markets work to the benefit of all.

Burczak’s alternative largely rests on a theory of social justice derived from the “capabilities” literature associated with Sen and Nussbaum. The capabilities literature was born from dissatisfaction with purely formal liberal theories of justice, which worry only about the rules by which people act, rather than the content of those actions—thus allowing, for example, that it could be perfectly just if a number of citizens starve to death because no one else is willing voluntarily to provide or trade with them for food. By contrast, the capabilities literature focuses on ensuring that individuals

have, as Burczak puts it, the “means and resources to develop their capabilities to lead choiceworthy lives.” For your life to be choiceworthy, you must have sufficient options to achieve “vital human functions.” (What those functions might be is, in Burczak’s phrase, an “empirical project.”) That point is key to Burczak’s critique of Hayek.

**F**ollowing the capabilities literature, Burczak faults all the various strands of the liberal tradition for their refusal to believe that individuals can agree on the ingredients of the “good life.” Burczak believes that both history and human nature reveal that such agreement is indeed possible on at least the means to the ends associated with the “good life”; such means might include that people are “well-nourished and educated, have access to adequate health care and shelter, have property that allows explorations of one’s subjective appraisal of beneficial opportunities, and possess the ability to participate in social institutions and interactions with dignity.” If so, democratic processes have a role in ensuring we all have access to these means to live the good life.

The most obvious policy implication here is some redistribution of income or wealth, but capabilities theorists also argue for minimum guarantees of food, health care, and housing. Hayek himself argued for a minimum income for those who were unable to participate in the market on their own (and thereby earned the wrath of more radical anti-statists), but what Burczak calls for is far more wide-ranging and resource-intensive than anything acceptable to even the most moderate libertarian. For example, he approvingly cites Sweden and

Finland as examples of countries with effective approaches to the problem of capabilities. No existing libertarian tent is big enough to endorse a Scandinavian-style welfare state.

The obvious libertarian retort to the capabilities approach, which Burczak does not confront in any detail, is that not agreeing on a conception of the good life is a virtue of the liberal order, not a vice. If we agree to allow multiple conceptions of the good life to coexist, we don’t have to fight over what the good life is and how the spoils to make it possible should be divided. That battle would, Hayekians argue, impoverish us all, including the people such policies were designed to help.

**Importantly, the capabilities** literature goes beyond material goods in considering what is required for a truly human life, including “participating in social institutions and relations with dignity.” Burczak recognizes that determining what this means in practice would be very difficult and subject to some of the knowledge problems Hayek identified. Yet he still defends a kind of social democracy where such “foundational” resources are provided for everyone as an “equal starting point.” One of his proposals is borrowed from Bruce Ackerman and Anne Alstott, both of Yale Law School, who argue for a “social inheritance” grant for each citizen upon reaching the age of majority. This grant (they think it should amount to \$80,000, which at the time they were writing would have amounted to \$250 billion a year) would enable everyone to become a true “stakeholder” and would promote substantive equality of opportunity. Burczak argues that this is a sort of negative wealth tax that would

provide substantial resources at low overhead and would enable everyone to participate fully in the Hayekian market process.

This is not your grandfather's socialism—or his libertarianism. Burczak is comfortable with the market as long as it allows the state to provide foundational resources. Once we have some assurance that all can lead “choiceworthy” lives, allowing people to engage in the choices entailed by market relations is perfectly fine with Burczak—with one notable exception. He also insists that we make mandatory the self-managed, worker-owned firm as opposed to the more standard labor/capital divide, exempting only single-employee businesses where the owner hires no wage labor. He offers a fairly technical argument for why traditional capitalist relationships are exploitative and thus the enemy of a “choiceworthy” life.

Labor-managed firms themselves are not antagonistic to the market economy. Even if other forms of employment contract are not legally permitted, such firms still exist in a market context where competition and profit and loss determine their success or failure. In fact, it is possible to make a Hayekian argument for labor-managed firms (though not for mandating them) by focusing on the better communication of knowledge that might come from a more decentralized internal structure. This is not an argument that Burczak offers, but it has been made by the Austrian economist David Prychitko.

**F**or those libertarians who advocate a minimal to nonexistent state based on natural rights, responding to Burczak is easy: Your system would violate people's freedoms, and that is

bad, no matter the consequences. But that response forecloses such libertarians from persuading someone like Burczak—or almost any other social scientist who judges policies and institutions by how well they perform and not by abstract rights—to become more libertarian. Although Hayek himself wasn't always radical in his views, you can use Hayekian insights to make the case for a very radical libertarian vision.

One question a Hayekian might ask is whether the democratic state can actually achieve the outcomes required by the capabilities approach. Is the state really better than civil society at improving the nutrition, health care, or housing of a population? Burczak spends little time confronting concerns about whether self-interested political actors can produce the outcomes they promise. After all, we have already put into place a number of programs designed to do some of that work. Their track record is mixed at best: Although public schools, for example, were intended to make education accessible to everyone, the worst ones are often found in inner cities and rural areas, replicating the very inequities that public education was supposed to reduce.

If Burczak is a bellwether, his book suggests the debate over markets vs. socialism will become more and more empirical. Do unconstrained markets produce outcomes for the least well-off that are at least as good as could be produced under other economic systems? Can political processes achieve the goals that critics of markets would like? Looking again to schools, it's telling that vouchers and other alternative educational arrangements tend to be popular among the inner-city poor—and,

when put in place, have had more success than traditional public schools in improving outcomes for that same group. Similarly, the deregulation of the telecommunications market has brought cheap and portable voice and data communications to millions of poor Americans, making their lives more “choiceworthy” by increasing their connectedness to the rest of the world.

**In some sense, these have always** been the questions at the center of the grand debates in political economy, but for most of the 20th century the ground staked out by socialists was much farther away from the ground free marketeers defended. The continued narrowing of that gap reflects the success of Mises, Hayek, and many economists and activists who followed them. Even those who now call themselves socialists admit, not always happily, that markets generally outperform planning, arguing simply that there are exceptions (medical care and the environment, among others) that require intervention. For most of the 20th century, this general acceptance of the market would have made them nonsocialists by definition. No one was going to the barricades in order to subsidize health insurance and hybrid cars. With Burczak's book, the gap narrows even more, as his accurate and respectful treatment of Hayek produces a post-Hayekian socialism that is not all that far from a free market—and that opens up the possibility of fruitful new debates in the future. ■

*Steven Horwitz (sghorwitz@stlawu.edu), the author of *Microfoundations and Macroeconomics: An Austrian Perspective* (Routledge), teaches economics at St. Lawrence University. He is writing a book on classical liberalism and the family.*