

Final version of a paper presented at the international workshop on  
"Austrian and Swedish Economics : Criss-Cross Stories and Current Perspectives",  
CREUSET, University Jean Monnet, Saint-Etienne, France, 22-23 March, 2002.  
To appear in *The Evolution of the Market Process: Austrian and Swedish Economics*,  
edited by Michel Bellet, Abdallah Zouache and Sandye Gloria-Palermo, London, Routledge, 2003.

HAYEK'S AND MYRDAL'S STANCE  
ON ECONOMIC PLANNING

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## ABSTRACT

Hayek is, with Mises, one of the prominent Austrian economists who took part in the historical “socialist calculation debate” of the 1930s. After recalling precisely what Mises’s crucial argument against socialism was (socialism means the abolition of market prices which are necessary for real rational economic decisions to be taken in production), this paper goes on to show what Hayek’s main argument was (state planning of the economy is impossible because no super-brain can have all the necessary knowledge to be economically efficient). I will further show that, while this last argument is theoretical, Hayek has also an argument about the preeminence of competitive economy from an evolutionary standpoint, which is an empirical question and thus forms a less conclusive argument. In the second part of this paper, I will summarize how Myrdal explains in his 1960 book, and from a completely different angle, how state intervention and planning historically occurred—and continues to work—in our Western Capitalist Welfare States. Myrdal’s account is explicitly presented by him as having empirical import, but also strong normative content. Hayek, on the contrary, argues that the efficiency of state planning is a problem for economists to solve on exclusively scientific grounds. My purpose is to show important divergences between these two economic viewpoints and to sketch a philosophical appraisal of both.

## I.- INTRODUCTION TO A COMPARATIVE ASSESMENT

It is an understatement to say that, if not as economists, at least as social scientists and, more generally speaking, as political thinkers, Hayek and Myrdal did not place themselves on the same side of the fence. It is perhaps in order to ensure an “ideological equilibrium” that both were granted the *Sveriges Bank Prize in Economics in Commemoration of Alfred Nobel* the very same year (1974). One can of course find convergent views between the two theorists on several theoretical and methodological questions, but it seems indisputable that they took opposite stands on the question of the efficiency and overall legitimacy of state interventionism in the social and economic order. It is precisely this opposition that I wish to discuss here. In what follows, and for want of sufficient space, my aim will not be to assess in full detail each of the two views. I will content myself with comparing and contrasting Hayek’s and Myrdal’s analyses—which will of course seem highly polarized—to show first of all what exactly makes these two approaches completely different, but also, and maybe more importantly, to delineate in each case, from an epistemological and methodological perspective, what may be seen as analytical strengths on one hand, and redhibitory weaknesses on the other hand.

In what follows, I will be paralleling Friedrich Hayek and Gunnar Myrdal on a central and crucial question: for both of them, the question of state planning and central regulation of the economy, as both a theoretical possibility and a political reality, is perhaps the most important problem that economics, as a theoretical discipline, has to deal with. As we shall see, Hayek and Myrdal again addressed this question from quite different angles. Be that as it may, both of them came to grips with intricate matters related to this problem, and each articulated a system of arguments which may not evidently clash bluntly, but which can nevertheless be reconstructed as two stages of a *dialectic*, i.e. a discussion—or “conversation”—where, if we are presented with a thesis and an antithesis, we can purportedly still be searching for a synthesis. I will first expose Hayek’s contribution in the controversy opposing those who, like himself, favor market economy over any kind of centrally planned economy. Here I will try to articulate what seems to be a purely *theoretical* argument with a very different one, the evolutionary argument, which has to be qualified as an *empirical* one. I will secondly expose Myrdal’s explanation and justification of the working of state intervention and planning in Western capitalist countries. We will be here and there in a position to appreciate Myrdal’s views as clearly conflicting, even if never explicitly and with documented evidence, with Hayek’s ideas. From this comparison, philosophers of economics and historians of economic thought will hopefully learn something valuable.

## II.- HAYEK ON SOCIALIST ECONOMY

Let us first recall that it was in 1920 that Ludwig von Mises launched the controversy that was to be known afterwards under the general heading of "Socialist Calculation Debate" (Mises, 1920).<sup>1</sup> As was said from then on, although quite inaccurately, Mises tried in that article to show the "impossibility of socialism".<sup>2</sup> Formulated this way, Mises's analysis was rather easily rejected in the 1930s because it was the dominant perception that the existing Soviet Union was empirical proof that socialism was not only possible, but that it represented the optimal solution to the economic problem at a time when all Western capitalist countries were profoundly despairing of coming out of their completely depressed economy.<sup>3</sup> But what Mises was in fact arguing, not on empirical but on theoretical grounds, was that rational economic calculus is impossible in socialist states as long as there are no market prices to work with in the decision process (especially for rational decisions concerning higher order or capital goods).<sup>4</sup> Hayek accepts Mises's thesis and especially the Misesian approach to the problem: for him the question is first of all theoretical, it deeply concerns economics as a science and it can be solved by way of scientific arguments and reasoning (Hayek's words are "a priori reasoning": Hayek, 1935b: 90).<sup>5</sup>

I completely agree with Bruce Caldwell (Caldwell, 1988b: 74-75; Caldwell, 1988a) that it is precisely within the conceptual and theoretical framework of this particular debate on the possibility of socialist calculation that Hayek definitively breaks with the standard equilibrium approach to the market economy and finds out that the central problem of economics is related to the complex question of social coordination. From the Hayekian standpoint, this problem cannot be solved without articulating a

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<sup>1</sup> But Günther Chaloupek notes that "(A)mong socialist writers Otto Neurath was the first to take up the question of economic accounting in a socialist economy, in 1919" (Chaloupek, 1990: 662). He refers to O. Neurath, *Wesen und Weg der Sozialisierung* (Munich, 1919).

<sup>2</sup> Hayek clearly rejects this wording of the problem: "(...) Mises had occasionally used the somewhat loose statement that socialism was impossible, while what he meant was that socialism made rational calculation impossible" (Hayek 1935a: 76). For his part, and for reasons which should become clear further on, Hayek talks about the "impracticability of socialism" (*ibid.*: 69 and *passim*).

<sup>3</sup> For instance, following the publication of *The Road to Serfdom*, Keynes wrote a letter to his friend Hayek in which he showed himself clearly to believe that "the extreme planners can claim their technique to be more efficient" (cited in Christiansen 1993: 51). Keynes even adds: "I should say that what we want is not no planning, or less planning, indeed I should say that we almost certainly want more" (*ibid.*: 52).

<sup>4</sup> Bruce Caldwell correctly insists on the fact, most crucial for Hayek, that in Lange's model "there exists a free market for both consumer goods and labor, but (because of public ownership of the means of production) no market for non-labor productive resources like capital" (Caldwell 1997: 1862). This has bewildering consequences, cunningly identified by Hayek (Hayek, 1940, section VIII, pp.132-5).

<sup>5</sup> Bruno Jossa (Jossa 1994) argues that we cannot find in Hayek's writings a *logical* argument which would prove the inefficiency of a market socialist system where the state-owned enterprises would be administered following a completely decentralized model and where they would compete for resources, material, human *and capital as well*. But Hayek has stressed convincingly that the practicability of such a system is very doubtful.

genuine theory about the role and use of knowledge in society.<sup>6</sup> This forms the hard core of what I will call the Hayekian *theoretical* argument. But one can find a much different kind of argument in Hayek, i.e. an evolutionary argument. I will characterize this argument as the Hayekian *empirical* argument. Hayek first exposed the essential elements of this genuine argument systematically in *Law, Legislation and Liberty* (see especially Hayek, 1973). But in Hayek's last book (Hayek, 1988), socialism is still appraised from this evolutionary standpoint, and as such is considered by Hayek to be *the* major problem not only of economic theory but also, more globally, of Western civilization itself. In that book, published the year before the Soviet Union collapsed, Hayek showed himself to be absolutely confident that economic analysis could prove that socialism was not only a social blunder and a political failure, but above all a formidable scientific error. My reading of Hayek's work is that this evolutionary argument has to be linked to the first argument, which is of a more theoretical nature as far as economics is concerned. Indeed, while the evolutionary argument puts forward a completely different conceptual framework tightening the theoretical argument, it first of all displaces the gist of Hayek's claim against socialism. By calling attention to facts concerning the global process of cultural evolution, typically analyzed by Hayek as a struggle or competition between moral traditions where the more efficient social and economic orders will dominate all the others and win the competition, Hayek now grounds on empirical evidence his argument stating the superiority of competitive economy over planned economy. This is to say that, when interpreted systematically, Hayek comes through as trying to prove on theoretical *and* empirical grounds that market economy is evolutionarily superior to any kind of socialist economy (centrally planned economy, market socialism, partially planned market economy). Methodologically speaking, Hayek is very explicit about the scientific nature of this question. This is not to say that Hayek does not equally approach this problem from a philosophical and sociological standpoint, for it is indisputable that by way of careful analysis he also tries to show socialism to be a moral, political and social disaster. But I would like to argue in the coming sections that, while the theoretical argument seems quite sound, the empirical argument, which, it must be said clearly, is plainly consistent and compatible with the theoretical argument, seems to be at least partly inconclusive.

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<sup>6</sup> According to Hayek, "(...) economics has come nearer than any other social science to an answer to that central question of all social sciences: How can the combination of fragments of knowledge existing in different minds 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?" (Hayek, 1937 [1948]: 54). See also Hayek, 1945 [1978].

## The Theoretical Argument

In a centrally planned socialist economy, where private ownership of the means of production has been abolished (this is the standard definition which both Mises and Hayek use),<sup>7</sup> there is no market for production and capital goods—and if there is no market, then there are no real economic prices, for this kind of price can only be fixed within an exchange-based economy. As a logical consequence of this, it is said that no rational economic decision is possible, for such rational decisions relative to production can only be grounded on the consideration of all available options and all situational constraints, and, with that in hand, on the calculation of opportunity costs. But why the debate here? This view gave rise to an important historical debate because this argument, first articulated by Mises, was criticized and rejected by economists like Oskar Lange (1936) and Henry Dickinson (1933), who found that “market socialism” was a possibility (and a real one, at least for the consumption process) and that it offered an adequate solution to the legitimate problem raised by Mises. Instead of letting markets fix the prices, it was considered that the market process could be *simulated* in order to identify “accounting” (i.e. book-keeping) prices. This simulation would be done, following Dickinson, using General Equilibrium Theory (the technical work would simply involve finding an algebraic solution to the problem of a complicated system of simultaneous equations) in order to ensure that, on all markets, supply would equal demand, but also that prices would equal average marginal costs. This gave rise to the “computation problem.”<sup>8</sup> Robbins (1932) and Hayek (1935b) argued that a precise economic calculus of this kind was in fact unfeasible mathematically speaking because it would rapidly prove to be too complex.<sup>9</sup> Then Lange put

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<sup>7</sup> Most, but not all of the socialist models that Hayek analyzes also retain two crucial traits: “freedom of choice in consumption and continued freedom of the choice of occupation” (Hayek, 1935a: 63).

<sup>8</sup> Don Lavoie (Lavoie, 1981, 1985) thinks that we should only speak here of a “calculation” and not of a “computation” problem. For Hayek, Pareto established once and for all that the use of a system of simultaneous equations to explain what determines the prices on a market would never give the means for a “numerical calculation of prices” (Hayek, 1940: 117). See also the following note.

<sup>9</sup> Hayek makes this point most clearly in “Scientism and Social Sciences”. Speaking of the Walrasian and Paretian systems of equations to represent the relation between the prices of the multifarious types of commodities of any economic system, he writes: “but without knowledge of the numerical values of all the constants which occur in it and which we never do know, this does not enable us to predict the precise results which any particular change will have” (Hayek, 1979: 75). In a note, Hayek refers to Pareto: “Pareto himself has clearly seen this. After stating the nature of the factors determining the prices in his system of equations, he adds (*Manuel d'économie politique*, 2d ed. [1927], pp. 233-34): “It may be mentioned here that this determination has by no means the purpose of arriving at a numerical calculation of prices. Let us make the most favorable assumptions for such a calculation; let us assume that we have triumphed over all the difficulties of finding the data of the problem and that we know the *ophélimités* of all the different commodities for each individual, and all the conditions of production of all the commodities, etc. This is already an absurd hypothesis to make. Yet it is not sufficient to make the solution of the problem possible. We have seen that in the case of 100 persons and 700 commodities there will be 70,699 conditions (actually a great number of circumstances which we have so far neglected will still increase that number); we shall, therefore, have to solve a system of 70,699 equations. This exceeds practically the power of algebraic analysis, and this is even more true if one contemplates the fabulous number of equations which one obtains for a population of forty million and several thousand commodities. In this case the roles would be changed: it would be not mathematics which would assist

an end to this controversy by propounding what was to be called the “competitive solution.” In that approach to the calculation problem, the economist, theoretically simulating the working of the real market by working by trial and error, would himself progressively, using accounting prices only as first approximations, come to know the effective clearing prices, anticipating in his planning what the right level of economic activity would have to be if supply were in fact to equal demand in each and every market.

For Oskar Lange (Lange & Taylor, 1936-7), the socialist calculation problem could be divided in two separate parts, each related to one precise dimension of the market process. Because the market operates to fix prices, then there is a problem with the real nature of prices. Lange clearly thinks that Mises is completely misguided when he holds that market prices are necessary here. But Lange’s demonstration seems to Hayek (see Hayek, 1982) to be too thin and superficial to be really convincing. Nevertheless, to Lange’s mind, because Robbins (1932) and Hayek (1935b) had theoretically presupposed the very possibility of a socialist calculus, if only to target its extreme practical complexity, the only problem left seemed to concern the allocation of rare resources to alternative goals, a problem that the market process was again said by Mises and Hayek to solve optimally. Lange then argued that a “Central Planning Board” (CPB from now on) would do a better job, as it would proceed by trial and error but would have access to more complete information than any isolated individual capitalist entrepreneur. Lange’s argument boils down to the following reasoning, which I quote: “The economic problem is a problem of *choice* between alternatives. To solve the problem three data are needed: (1) a preference scale which guides the acts of choice; (2) knowledge of the “terms on which alternatives are offered”; and (3) knowledge of the amount of resources available. Those three data being given, the problem of choice is soluble” (Lange, 1936: 60).

Hayek does not contest Lange’s right to frame the question this way. Hayek does indeed accept to consider that, given data of type 1, 2 and 3, then the “socialist calculation problem” can be solved because this would mean that there is a rational way to choose between alternative ends. But the problem is not actually solved by Lange, according to Hayek, because there is no argument in Lange’s line of reasoning to prove that the needed data themselves can be known to the CPB. The question is exactly the following one for Hayek: who has access to that knowledge? If the necessary knowledge to make rational economic choices is radically dispersed between actors on a market, we cannot take for granted that

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political economy, but political economy which would assist mathematics. In other words, if one really could know all these equations, the only means to solve them which is available to human powers is to observe the practical solution given by the market” (*ibid.*, p. 75, note 8). If only to prove the importance Hayek gives to this point, we can note that the very same Paretian argument is also used elsewhere by Hayek (see Hayek, 1939: 197-8, n.13; Hayek, 1940: 117-8; and Hayek, 1945: 90, n.1).

there will exist a mechanism that will put all this dispersed knowledge together as if it could be aggregated in a central super-brain. Even if we supposed that type-1 data were unproblematic because the CPB would eventually fix the scale of preferences itself or would observe what the preferences were on the market, the same cannot be said of type-3 data. Defining the overall quantity of resources needed for the economy to work properly is possible only if one can represent resources objectively by using precise volume numbers of commodities that can be technologically transformed into other commodities. But Hayek stresses that the very notion of "resource" is tricky: it is a *subjective* notion and not an objective one, as Lange seems to think. A resource is clearly something inside an individual "plan of action," and resources, forming the "terms of the alternative" themselves, can only be defined by reference to a precise production function. Resources cannot be seen, as in Lange's analysis, as if they were stable, fixed, identifiable in advance without a production plan, i.e. as objective data which a CPB could add up globally and systematically put on a list as if they were simply physical entities. In fact, if we understand Hayek properly, we have to say that resources are "intentional" entities.

What is at stake here is the notion of "data" itself, and Hayek suggests that we should distinguish between two meanings of the word "data": "It can be used legitimately either for the assumption, necessarily made hypothetically by the theorist, that certain facts exist which are not known to him, or for the assumption that particular facts will be known to specified persons and will have certain effects on their actions" (Hayek, 1982: 55). The first meaning is a thoroughly theoretical one: we always have to assume that certain facts exist, most of the time by hypothesis, in economics as in all other sciences. The "data" we are talking about therefore refer to objective, albeit hypothetical, matters of fact in the world, with those putative facts explaining other observable ones. But the second meaning is a *practical* one: the data we are talking about in that instance are facts known only to particular individuals and they make up their "subjective knowledge." Following Hayek, Lange misses this conceptual difference and mixes the two kinds of data. It may be theoretically possible for a CPB to know or to suppose what the production functions are in a certain state of the national economy and, in this way, determine what the value of commodities is in that economy. Even if Hayek doubts the achievability or "practicability" of this approach to the calculation problem, one can imagine that with proper means this can surely be done "in principle" by having a super-computer solving thousands or even millions and billions of simultaneous algebraic equations, as intricate and complex this matter may be "for the human mind", as Hayek writes. Regardless, this hypothetically successful computation does not give the CPB knowledge of any production technique that can be used in the process of transforming resources for the production of economic goods. This "knowing how" as opposed to "knowing that", a distinction that Gilbert Ryle made familiar to us, is "tacit knowledge," a concept that Hayek borrows from Michael Polanyi (Polanyi, 1951,



1969).<sup>10</sup> In any market economy, this knowledge is of a very peculiar kind, so that only the particular entrepreneur can be said to have this kind of knowledge, for it concerns the singular situation in which the entrepreneur finds him or herself. This knowledge is not the kind of knowledge that economists as theoreticians or social engineers can have or can formulate and discuss, for it is not conceptual, propositional or discursive knowledge. In the market economy, the entrepreneur possesses a local and situational knowledge which is necessary for the dynamics of the economy and which consequently cannot be dispensed with. It is easy to see that, if this is true, then socialist administrators acting as engineers of the economy and forming the CPB, cannot replace local entrepreneurs—it will simply not work. Entrepreneurs have to draw on, if not master, the precise technological knowledge that the production function requires. But more than that, they have to know the prices of the resources they need if they are to make rational decisions and opt for profitable courses of actions. This kind of knowledge can never be available globally to any state that would be economically directed and governed by a CPB. Hayek's argument, like Mises's argument, is a kind of impossibility theorem.

This is Hayek's epistemological argument, indeed a strong one, and it is a *theoretical* argument. In that context, Hayek uses ideas that, as indicated earlier, he borrows from Michael Polanyi and which I would like now to unfold more carefully. First of all, we have to concede that not all social and economic orders are alike and that there are some which are more robust and efficient than others as far as allocation of rare resources to fill diverse needs are concerned. As Polanyi has argued, more dynamic and efficient types of order are not *monocentric* but *polycentric*: these are strongly decentralized and form almost local orders, based on parameters that are unpredictable long in advance, but able to adequately solve the kind of problems that emerge in a particular situation (conjuncture problems). Such solutions are, for that matter, inevitably uncertain and temporary, and in no way general.

The nature of the problems we face in societies where economic development is based on commerce and industry are such that the more the economic order is decentralized, the more this order is robust and extended. But then these problems can only be solved by local actors acting on an individual perception of what the situation really is. The situational problems perceived by entrepreneurs are not at all theoretical ones and cannot be transposed into a mathematical model as though it were possible to represent them fully in all their parameters. This is precisely why Polanyi talks of "tacit knowledge" to characterize this kind of situational awareness and rationality. This knowledge is not articulated in propositional formulas, it answers "how to" questions and not "why" questions: "know how" knowledge, in contrast with "know that" knowledge, is "personal knowledge," as Polanyi likes to say. For that matter,

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<sup>10</sup> See Hayek, 1968 [1978]: 38. See also Hayek, 1967c: 44.

it is usually transmitted only locally to persons living in analogous situations where, by imitation of what has already been done somewhere else, the know-how can be transposed fruitfully. Tacit knowledge concerns personal skills and takes time to be acquired. It boils down to situational problem-solving and practical ways of thinking, perception rules and behavior principles that people living in groups or communities usually share. Tacit knowledge corresponds to rules and principles that people often follow without being aware of them, or even of why they follow them. People are unable to formulate those rules and principles, much less justify them, even if they were able to articulate them on a conscious level—which they are not. People only know whether the way they do things works appropriately or not. They can also know that, in the long run, those rule-governed behaviors normally give the kind of results they are looking for, proving that they are right. No one can predict whether the multiple practical skills out of which the local, and national, economy is emerging will be fruitful, and nobody knows whether people working their way out following those rules will prove to be better adapted to their situation. No one can know in advance for how long this will in fact be the case because it all depends on many contingencies. No one knows in advance what tomorrow will bring, what the needs will be and what the general situation will be.<sup>11</sup> The kind of knowledge each individual uses for his own and his family's purposes during his lifetime cannot be totally stated and stored somewhere. A CPB cannot work like a super-brain where all those personal skills can be collected and preserved as "data".<sup>12</sup>

Following Polanyi, Hayek consequently claims that, in order to be as efficient as possible or at least more efficient than any centrally planned economy,<sup>13</sup> a social system taken as a whole has to be modeled as a system that has no proper center of operation: the more numerous the interacting component parts of a dynamic social and economic system are, the more cohesive, robust and productive the socio-economic "spontaneous order" will be. According to this last argument, the quality of a social and economic order, its efficiency and endurance, are a direct function of the amount of reliable knowledge that millions of individuals living together are capable of using in making their own personal decisions. The more rapidly they can exchange information pertaining to what they wish, what they need

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<sup>11</sup> This argument has to my mind something to do with Popper's own logical argument developed in the preface of *Poverty of Historicism* (1976) where he proves that it is impossible to know in advance, i.e. today for instance, what will only be known tomorrow. Future knowledge is unforeseeable and unpredictable as such.

<sup>12</sup> More on that topic in Nadeau, 1998.

<sup>13</sup> It may not always be clear enough everywhere in his writings (to my mind it is most of the time), but I take Hayek's stance concerning socialism and capitalism to be thoroughly comparative: it is only when compared to centrally planned economy that competitive or market based economy is said to be "the more efficient". To make sense, and especially when put in an evolutionary perspective, this question has to be formulated in relative terms and never discussed with reference to an absolute scale, for none is available.

and what they are ready to pay for, and especially in terms of opportunity costs, the more they can increase their understanding of the situation they and others find themselves in and, for that matter, the more they are able to produce economic *coordination* among themselves. Like Polanyi, Hayek's understanding of the market economy brings him to argue for the primacy of "tacit knowledge" over speculative knowledge: for Hayek, it is in a sense unimportant to conjecture that individual economic agents and economists have the same "model of the economy," as in the rational anticipations theoretical framework, because what matters is that agents and theoreticians do not have the same kind of economic knowledge.<sup>14</sup> As far as the efficient working of the economy is concerned, Hayek gives, by a large margin, prime importance to practical knowledge over theoretical knowledge, and priority to personal knowledge over a bookish sort of knowledge. This epistemological argument amounts to saying that, in all social sciences, one has to start from the fact that the building blocks of the structures whose functions we have to explain are human individuals possessing a certain amount of information which will cause them to act as they decide.<sup>15</sup> But this knowledge is not representational for any individual. Rather, it presents itself as skills, acquaintances or other kinds of personal knowledge, that is, as diverse rule-governed practices that individuals master up to a certain degree, some being innate but many others being acquired through education or by cultural transmission and imitation. Most of this knowledge, formed by sets of unconsciously acquired rules of perception and action, is said to be "tacit" because it is usually doomed to remain more or less inarticulate and not explicitly formulated. This kind of knowledge is incorporated into very different systems of rules of perception and conduct, most of them being negative rules, and cannot be stored in a super-brain or any calculation device or machinery, as complex as it may be. As Hayek insightfully remarks, "(S)uch spontaneous orders as those of societies, although they will often produce results similar to those which could be produced by a brain, are thus organized on principles different from those which govern the relations between a brain and the organism which it directs. Although the brain may be organized on principles similar to those on which a society is organized, society is not a brain and must not be represented as a sort of super-brain, because in it the acting parts and those between which the relations determining the structure are established are the same, and the ordering task is not deputized to any part in which a model is preformed" (Hayek, 1967a: 74).

The core of Hayek's theoretical argument against centrally planned economy is therefore that the very nature of the economic knowledge necessary for the market economy to work properly or as

<sup>14</sup> On the epistemological difference between those two kinds of knowledge, see Nadeau, 2001.

<sup>15</sup> This corresponds to what Hayek calls "constitutive ideas" as compared to "speculative" ones (see Hayek *Scientism and Social Sciences* (1942-4), now part of Hayek, 1952.

efficiently as possible in a particular conjuncture is by nature practical, fragmented, dispersed, local and inaccessible to anyone as a whole.<sup>16</sup> It surely cannot be held by a CPB such as the one socialists are dreaming of. This is why, as Hayek insists, it is absolutely crucial to see the difference “between an order which is brought about by the direction of a central organ such as the brain, and the formation of an order determined by the regularity of the actions towards each other of the elements of a structure” (Hayek, 1967a: 73).

## The Empirical Argument

What seems to be quite characteristic of Hayek’s analysis of spontaneous social and economic order is that, as theoretical as it is from the start, when closely related to the socialist calculation debate, it cannot be completely articulated if we do not state the superiority allegation that is essentially tied to it. One can surely maintain, as John Gray does, that no moral value judgment is really at stake here (Gray, 1984: 33-4; 118-125)<sup>17</sup> but it is difficult not to see that Hayek’s theoretical analysis serves to support a preeminence claim regarding the market economy. Let us try to be razor sharp here. Asserting that competitive economy is and should be considered superior to centrally planned economy is *per se* a normative statement, but has nothing to do with ethics. Hayek overtly denies committing the genetic or naturalistic fallacy. He writes: “I do not claim that the results of group selection of traditions are necessarily ‘good’ — any more than I claim that other things that have long survived in the course of evolution, such as cockroaches, have moral value” (Hayek, 1988: 27). But this in no way means that

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<sup>16</sup> This crucial fact has already been fully recognized by almost all Hayek’s critics and commentators. Indeed, connecting this Hayekian argument with the evolutionary one to which I will turn in the next section, Carlo Zappia has this clever incidental remark: “(...) in examining how competitive systems could deal with personal knowledge, Hayek realized that even competitive prices could not completely aggregate the knowledge dispersed throughout the system. His appreciation of the market order then shifted from the precise notion of equilibrium—which no longer implies Pareto-optimality, or informational efficiency—to the more qualitative construct of spontaneous order — by means of which other conditions for market efficiency could be better pointed out” (Zappia, 1999: 120-1).

<sup>17</sup> Maurice Lagueux’s very careful reading of Hayek is a bit different. Lagueux insists that one will not find in Hayek’s evolutionary approach to economics any form of teleological view: “...(Hayek) ne pouvait pas recourir et il n’a pas vraiment recouru aux critères de l’adaptation et de la survie pour établir qu’une structure comme le marché est effectivement apte à favoriser efficacement le bon fonctionnement de la société. Si une telle structure pouvait, à ses yeux, résulter de l’évolution spontanée des sociétés, on ne pouvait en conclure que toute évolution devait forcément déboucher sur une structure de ce type. Il serait donc tout aussi injuste de voir en Hayek une sorte d’apologète inconditionnel du *statu quo* qui justifierait le présent du seul fait qu’il serait le fruit d’une longue évolution ou même d’une longue tradition. Le marché, selon Hayek, ressemble bien plutôt à une structure fragile qui ne s’est réalisée qu’imparfaitement dans l’histoire concrète et que les essais et erreurs de l’humanité ont risqué de détruire tout autant qu’ils sont parvenus à la mettre en place” (Lagueux, 1988: 96). But as far as moral or political justification is concerned, he adds as a critical remark that “la dimension anti-téléologique de la sélection ne peut intervenir de façon décisive au moment où entre en jeu le choix des institutions” so that “(L)à seule qualité de *spontanéité* ne véhicule aucunement en tant que telle quoi que ce soit qui puisse fonder un jugement de valeur portant sur l’«ordre social» ou sur la «justice»” (*ibid.*: 102).

Hayek denies *eo ipso* the evolutionary superiority of competitive economy over planned economy. As a matter of fact, Hayek also denies that the extended society was bound to take place in History: he explicitly considers that this economic system “has not been deliberately invented, but that it has spontaneously grown up long before we had learnt to understand its operation” and he regards it as “the result of a more or less accidental historical growth...” (Hayek, 1941: 215). Nevertheless, Hayek undeniably sees “the price system as the best one” (*ibid.*). Time and time again Hayek insists on the superior efficiency of capitalism over socialism. For instance, starting from the bare fact that “(T)he only known mechanism by which the knowledge of all can be utilized (is) the price mechanism” (Hayek, 1939: 196), and being perfectly aware of the fact that sometimes the price system is inapplicable and is supplemented, he writes: “The problem we are discussing is not, however, whether the price system must be supplemented, whether a substitute must be found where in the nature of the case it is inapplicable, but whether it ought to be supplanted where the conditions for its working exist or can be created. The question is whether we can do better than by the spontaneous collaboration secured by the market, and not whether needed services, which cannot be priced and therefore will not be obtainable on the market, have to be provided in some other way” (Hayek, 1939: 197). It may be not clear if this argument can be characterized as a kind of “invisible hand explanation”. It seems to be more akin to the kind of “extremal” explanations one can find in evolutionary biology where it is considered that the best adapted organisms, i.e. the fittest, have a better survival rate than the others. One has nevertheless to ask whether this Hayekian optimality argument is plainly consistent with the evolutionary standpoint Hayek adopts. I will try to show that it is.

In the socialist calculation debate, we must remember that Hayek was facing opponents who aimed to establish “that not only was central direction of economic activity practicable” but that it would even be “superior to a system of competition” (Hayek, 1935a: 71). From the start, then, the terms of Hayek’s debate with socialist economists, and Mises’s as well, were given a methodically comparative orientation. As stated previously, Hayek opposes the kind of order that results from an emergent evolutionary process to that which is “rationally constructed” by human beings, for example legislators. On that basis, Hayek’s analysis of spontaneous social and economic order serves indeed to counter the arguments of “constructivistic rationalism” (Hayek, 1973: 8-11; Hayek, 1979: xii) and undeniably includes as one of its essential elements the thesis that market economies are superior, as social orders, to all centrally planned economies. Preferring the term *catallaxy* to refer to competitive economy considered as a rule-based process and favoring the phrase “Rule of Law” over “laissez faire” to characterize the

underlying mechanism at work in such a process,<sup>18</sup> Hayek claims that this economic system has to be fully considered as a social spontaneous order because it is an evolutionary and unintentional process based on the price mechanism working in an appropriate institutional setup. Consequently, the resulting social and economic order is never intended as such, nor is it controlled by anyone. However, it can certainly be argued that the consequences of the actions of each and every individual taking part in the process are necessarily accounted for in its aggregate result. This analysis thus gives grounds not only for an argument in favor of free market economy but also, as I shall insist, against the very essence of the Welfare State, and especially the Keynesian brand of Welfare State (Hayek, 1995).

Basing himself on this discerning analysis of catallaxy, Hayek puts forward the theoretical claim that it manifestly forms a social order that is far superior to any kind of state-governed social and economic order. Hayek speaks here not only of economic superiority in terms of efficiently allocated resources, but also of social and political superiority in terms of the quality of life that such a free market-based economic order renders possible for the large majority of individuals. Hayek always maintained as a core thesis of his economic theory and of his political philosophy that a socialist economy, that is, a social order generated by an interventionist state and governed or regulated by a decision center, could lead to such undesirable results as limits to human rights and liberty—if not to complete serfdom (Hayek, 1944; Hayek, 1988).<sup>19</sup> The error of constructivistic rationalism is to take it for granted that a designed economic order will be necessarily superior to an unplanned one because it will be formed by and based on Reason. But, as Hayek points out, Reason itself is the product of evolution and should not be seen as capable of planning and directing evolution. More than that, economic planning by itself does not create order if by “order” we mean, with Hayek, “a state of affairs in which a multiplicity of elements of various kinds are so related to each other that we may learn from our acquaintance with some spatial or temporal part of the whole to form correct expectations concerning the rest, or at least expectations that have a good chance of being correct” (Hayek, 1973: 36). Human reason, and especially the individual minds of a small group of people, as inspired, wise, knowledgeable and thoughtful as they may be, cannot by itself achieve an order that would be better than the one from which rationality itself progressively emerges. As one of Hayek’s commentators has argued, “[O]n the contrary, by disturbing the regularities based on impersonal rules which are the product of evolutionary learning, rationalist social engineering

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<sup>18</sup> As it is usually understood, “laissez faire” is for Hayek a “misleading and vague term” (Hayek, 1941: 219) and he prefers to differentiate the liberal or market based economy from planned economy by reference to the “Rule of Law”.

<sup>19</sup> For sure Hayek never wrote that socialism would unavoidably provoke serfdom (he disputed this point to Samuelson who saw an “inevitability thesis” in Hayek’s argument: on this see Caldwell, 1997: 1868, n. 7) and he never claimed that competitive economies would certainly and necessarily replace planned economies in the course of History.

results, if not in chaos, at least in unworkable or unnecessary coercive organizational structures” (Dobuzinskis, 1989: 243).

Thus Hayek’s analysis ultimately presents itself as an *empirical* refutation of socialism. It is an overall scientific question: for Hayek “(T)he notion that, in the last resort, the whole debate is a matter of value judgment and not of facts has prevented professional students of the market order from stressing forcibly enough that socialism cannot possibly do what it promises” (Hayek, 1988: 8). But the ultimate aim of the debate is not only to debunk the “fatal conceit” of socialism, but also to support the general argument that market economy is largely superior as an efficient socioeconomic order to any kind of planned economic order. Catallaxy is held to be pre-eminent because it is more efficient, and it is said to be more efficient because it is alleged that no central political organism can adequately replace or even simulate the market pricing process. Hence, a full-fledged spontaneous social order will always be economically preferable to a full-blown collectivist planned one. This is surely Hayek’s understanding of what the whole socialist calculation debate was about (Hayek, ed., 1935; Hayek, 1940). He avowedly claims, not on moral but on theoretical and empirical grounds, that a resolutely interventionist state is bound to fail as the source of social and economic order: it could not only lead progressively to serfdom, but it could also ultimately cause the collapse of the whole economy. This argument has to be considered not only as an integral part of Hayek’s analysis but as its boldest claim. It is also probably its most disputable argument. It has indeed been submitted to fierce criticism (for instance: Dupuy, 1988, 1992; Dobuzinskis, 1989; De Vlieghe, 1994; Jossa, 1994; Lukes, 1997; Steele, 1994; Zappia, 1999). It would seem, then, that if one adopts Hayek’s evolutionary perspective, one cannot prove that a social order based on market processes is obviously the best possible order: “If anyone assumes an evolutionary point of view, where the individuals have a severely limited knowledge about the environment and their own rules of conduct, there is simply no room for saying that anything similar to optimality exists in Hayek’s world” (Petroni, 1995: 119). Indeed, if social and economic orders are plainly contingent, that is, if they are the unintended and unforeseeable products of evolution in a struggle for the survival of the fittest traditions, then the question of which is the optimal order is empirically undeterminable because we cannot predict which will outlast all others. If this holds, then advocating that market economies and liberal orders as we now know them are, on an absolute scale, the *best social and economic traditions there can be* is an untestable and thus normative claim, and can only be considered as the expression of an ideological preference. But this reconstruction of Hayek’s argument misses the methodological point. First of all we should stress that the kind of evolutionary argument Hayek is using is part of what has been called by Gould and Lewontin the “adaptationist programme”, but it has nothing to do with what

they called the “Panglossian paradigm.”<sup>20</sup> For as long as we compare, as ideal-types, the centrally planned economy on one side and the competitive economy on the other, that is, as long as we look at both to find out which has the comparative advantage over the other, and as long as we do not use any kind of absolute scale to compare their respective merits as social and economic systems, we can surely maintain, at least as a bold conjecture, that capitalism is superior in efficiency to socialism. This hypothesis has to be discussed on scientific grounds, considered for its explanatory robustness and its predictive power, if any, and judged at face value: it can surely not be dismissed from the start as logically flawed. From an evolutionary perspective, it could of course prove false: it is ultimately an empirical matter. As a scientific conjecture it is disputable, and refutable, on a conceptual and observational basis. It would clearly be a methodological blunder to reject it as intrinsically inconsistent or as logically incompatible with the socialist calculation theoretical argument. As such these two Hayekian arguments form, in my view, both sides of one and the same coin.

### III.- MYRDAL ON THE WELFARE STATE

I now come to Myrdal’s views on economic planning, which are radically different from Hayek’s ideas. Myrdal is not at all interested in discussing the respective merits of socialism and capitalism abstractly conceived as adversative or antithetical ideal-types. But perhaps can it be said first that Myrdal’s main methodological ideas are not a completely different brand from the ones Hayek approves. For instance, the whole idea of sketching explanations in terms of “principles” instead of “factual details” (Hayek speaks of “explanation by the principle” and Myrdal in terms of “pattern models”), the idea of systematically putting together causal factors working on different levels, the idea of an emerging social and economic order that would be “unintended” at least from the start if not after—all Myrdal’s views—cannot seem strange from an Hayekian point of view. There is also, of course, Myrdal’s idea of “cumulative causality,” i.e. of a “holistic pattern” where causes and effects would interact together to

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<sup>20</sup> Gould and Lewontin (1979) distinguish three forms of “adaptation”: 1) “what physiologists call ‘adaptation’: the phenotypic plasticity that permits organisms to mold their form to prevailing circumstances during ontogeny (...) Physiological adaptations are not heritable, though the capacity to develop them presumably is” (p. 264). 2) “Secondly, we have a ‘heritable’ form of non-Darwinian adaptation in humans (and, in rudimentary ways, in a few other advanced social species): cultural adaptation (with heritability imposed by learning). Much confused thinking in human sociobiology arises from a failure to distinguish this mode from Darwinian adaptation based on genetic variation” (p. 264). 3) “Finally, we have adaptation arising from the conventional Darwinian mechanism of selection upon genetic variation” (p. 264). The second kind of evolutionary adaptation by way of cultural selection is obviously what Hayek is talking about.



produce observable social and economic situations, because it is akin to cybernetic theory,<sup>21</sup> is not at all incompatible with Hayek's analysis of "spontaneous order." Contrary to Hayek, Myrdal may be uninterested in methodological individualism as such but, like Hayek, he thinks that economics as a scientific discipline is about trying to understand the workings of the economy rather than predicting its future states. A "pattern model" gives, for Myrdal, a kind of understanding that is bound to remain incomplete and indefinitely open to new empirical observations (Wilber & Harrison, 1978). On economic methodology at least, Hayek, who aims at "pattern predictions," and Myrdal, who looks for "pattern models", seem to be on par. But as far as economic theory is concerned, their stances seem to be diametrically opposed. This is easy to see if we follow the very detailed analysis of state intervention and planning Myrdal gives in his 1960 book on the Welfare State. This is precisely what I propose to do now, if only through a much summarized and very roughly sketched account of Myrdal's analysis.

It should be said from the very beginning that Myrdal maintains quite explicitly in this book that the very notion of a "planned economy" is a mere tautology "since the word 'economy' by itself implies a disposal of available means towards reaching an end or a goal" (Myrdal, 1960: 3). The question is therefore not about planning as a matter of fact but about its historical causes and significance, its institutional workings and its consequences, good or evil, for the national and international economies. State intervention in the economy, which, for Myrdal, is relentlessly contrasted with "free economy" by interest groups and political parties, is a social and political reality that economic analysis has to cope with in order to understand and explain it fully. The whole "free" versus "planned" economy discussion thus becomes merely ideological, not factual, for Myrdal. This is a first and a very serious discrepancy between the viewpoints of Myrdal and Hayek. What is astonishing for Myrdal is that people in Western capitalist countries—or what I will call, following him, "Western Capitalist Welfare States" (hereafter WCWS)—generally remain unaware of the degree to which the economy they live in is regulated "and how important national economic planning of a pragmatic, non-comprehensive type has in fact become" (Myrdal, 1960: 11-12). Even if Myrdal nowhere refers to Hayek himself, one cannot doubt that Myrdal's analysis runs counter Hayek's doctrine. "Anybody who makes a plea for the ideals of a 'free' economy," writes Myrdal, "and who then chooses to point out (...) how we are leaving those ideals behind us, and who from there goes on to characterize what we are indulging in as 'creeping socialism' and warns that we might be on the 'road to serfdom', can be sure of a sympathetic audience, particularly if he does not become too specific" (Myrdal, 1960: 12). Consequently, what is very characteristic of Myrdal's perspective is his "declaration of non-participation" in the debate opposing proponents and defenders of a "free"

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<sup>21</sup> The technical concept of the dynamics of a cumulative causality is presented in Myrdal, 1944 (Appendix 3: 1065-1070). For a discussion, see Radzicki, 1988 and also Adair, 1990 (especially pp. 66-67).

economy to the champions of a “planned” one. This ideological debate is of no interest at all to Myrdal insofar as state intervention and planning is an indisputable fact and has to be understood and explained as such. Referring to his 1960 book, Myrdal writes: “This book will deal with factual matters: how economic planning has actually developed in the Western world, what it now is, what its effects are for international relations, and what the prospects are for the future” (Myrdal, 1960: 15).

### **State Coordination of the Market Process**

Myrdal indeed wants to be quite specific about what counts as state intervention and planning. The national economy of almost every Western country has “become increasingly regulated, organized, and coordinated, i.e. ‘planned,’ to an extent nobody would have dreamt of a century, or even half a century, ago,” writes Myrdal in 1960. This planning process has all happened in a piecemeal and almost offhand way. As paradoxical as it may seem, state planning is the “unplanned development” (i.e., the “unintended result,” as Hayek would put it) of state intervention (Myrdal, 1960, p.19). “When in this inquiry I discuss the trend towards planning in the Western countries, I understand by the term ‘planning’ conscious attempts by the government of a country—usually with the participation of other collective bodies—to coordinate public policies more rationally in order to reach more fully and rapidly the desirable ends for future development which are determined by the political process as it evolves. As a result of the historical origin of these attempts at planning, and of the institutional and political conditions under which they have operated in these countries, planning becomes pragmatic and piecemeal and never comprehensive and complete. As a rule, planning in these countries has the nature of compromise solutions of pressing practical issues. It has been gradually growing, and will in all probability continue to grow, in scope and in relative importance. A major force propelling this trend towards planning has been, and continues to be, the steady growth of the volume of state intervention requiring coordination” (Myrdal, 1960: 23).<sup>22</sup>

Myrdal is of course particularly aware of the fact that the industrial revolution, which is the remote cause of the typical working of our contemporary WCWS, was absolutely not the result of intended state planning aiming at accelerated economic development. Quite to the contrary, it was the result of “the undirected and dispersed enterprise of individual entrepreneurs seeking to exploit new inventions for their own profit” (Myrdal, 1960: 20), a crucial lesson classical liberalism has taught us. But

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<sup>22</sup> It may be interesting to note that “piecemeal” is the phrase which Popper resorts to in *The Poverty of Historicism* (Popper, 1976) to qualify the kind of social engineering made possible by the scientific knowledge incorporated in social sciences and especially in economics. Popper always thought his positions to be very near Hayek’s positions. I am really not so sure about that. For a detailed study of Hayek’s and Popper’s different if not opposite views on “piecemeal social and economic engineering,” see Nadeau, 1986.

because this historical process brought a crisis-ridden world, large-scale regulations and state undertakings had to be resorted to, something which began gathering speed with the second part of nineteenth century and especially during the twentieth century, with the two world wars and the 1929 crisis. It is therefore not surprising at all, following Myrdal, that “[N]o country today (...) is willing any longer to accept a level of economic activity and employment determined by the automatic repercussions, through the banking system, of changes in its international payments situation,” or to put it another way, “no country is prepared to abstain from interfering in the ‘free’ economy,” and “[N]o country is now in a position to allow monetary matters to remain outside economic policy—or even outside politics” (Myrdal, 1960: 28).

Myrdal does not doubt that in many ways the unbroken succession of international crises during the first half of the twentieth century “bears a major responsibility for the steady increase in the volume of state intervention in the economic life of the western countries” (Myrdal, 1960: 30). But again, what is quite distinctive about Myrdal’s analysis is that he identifies this rapidly increasing state intervention as one of the main forces—and maybe *the* main driving force—behind what he refers to as “the trend towards economic planning.” The visible hand finally takes the place of the invisible one. Of course this has important consequences for the working of the market economy, and here Myrdal’s analysis stands in sharp contrast to Hayek’s approach. In a sense, to Myrdal, Hayek was fighting for an ideal model of the economy, the liberal economic theory of perfect competition, which had long faded away. But moreover, for Myrdal this classical theory had very strong presuppositions. In particular, “[T]he society of which this theory was a very idealized rationalization (...) had to remain stubbornly unchanged. It was possible to conceive of such a rigid frame under the atomistic assumption of instantaneous movements of all the elements contained within this frame towards full adjustment.” For Myrdal, therefore, the main thesis of this theory was “that *if* the economic units are infinitesimally small in relation to the size of the market, and if they do not act together, then no unit can by its own actions have any influence in the market. (...) The markets and the prices were, therefore, to the individual, whether he acted as a buyer or a seller, independent variables, a set of objective and given conditions for his behavior. They were as entirely outside his control as the seasons and the weather, to which he had to adjust in order not to perish. Under the assumptions implicit in the model, the price formation in the market performed continuously and smoothly the ‘function’ of restoring equilibrium after every change of the primary conditions” (Myrdal, 1960: 31).

This situation is no longer the case, according to Myrdal. The situation came to change completely precisely because the individual units “have found the means by which to combine. They have thereby come into a position where they can influence the markets and manipulate the prices” (Myrdal,

1960: 32). The markets have therefore progressively lost their characteristic of being spontaneous orders where prices present themselves purely as information signals to the individual economic actors: this is to say that "[T]he markets have become consciously 'regulated' by the participants" (Myrdal, 1960: 32). So individual units in fact began long ago to cooperate in order to influence this market process and, "going even further, to adjust the framework itself according to their own interests" (Myrdal, 1960: 32). The institutional reality that Myrdal is observing and, to my mind, putting forth against Hayek, is that all markets are manipulated these days. For that matter, many markets are at the present time completely dominated by one or very few sellers or buyers. And this is precisely the situation which compels the state to intervene. As Myrdal points out, "[S]ociety, faced with this illiberal trend, would become disorganized, if it stayed liberal and declined to intervene" (Myrdal, 1960: 43). Large-scale interventions become absolutely necessary in order "to prevent the actual disorganization of society, which would result from the organization of the individual markets, if this development were not controlled and coordinated" (Myrdal, 1960: 33). Contrary to Hayek's approach, for Myrdal, state intervention and planning should not at all be seen as collective actions contradicting individualistic market-based economies. On the contrary, one of the main internal causes of the development towards a progressive increase in state intervention, at least in the economy of Western countries, is the gradual breakdown of the competitive markets "resulting from the technological and organizational developments and the sophistication of people's attitudes in regard to the economic processes in which they were participating as buyers and sellers of services and goods" (Myrdal, 1960: 43). This is to say that for Myrdal state intervention and planning has to be understood as being there "to suppress the trend to market organization and restore free competition" (Myrdal, 1960: 43), which was done only with limited success. He insists that "(T)he main and important reaction by the state, however, has been instead to accept the trend, but to take such measures to regulate its course so that the public interest in both order and equity would be protected". And Myrdal comes to the conclusion that "thus a powerful but state-controlled infra-structure of collective organizations has come into being, beneath the constitutional frame of the state" (Myrdal, 1960: 43-4), a reality which he calls "the organizational State". For Myrdal, state interference in economic life is in fact "the inherited liberal ideal of fair play" which has been translated into demand that wages, prices, incomes, and profits should be settled by various sorts of collective bargaining, with the organizational state providing bargaining conditions by way of legislation and administration and acting as a sort of umpire service so that agreements can be reached. This way "a balance of strength between the buyers and the sellers in the market" (Myrdal, 1960: 46) is established. And one can say that in WCWS "[A]ll prices and wages and, in fact, all demand and supply curves, are

then in a sense 'political'," which is enough to conclude, as Myrdal does, that "[W]e are as far away as possible from the 'free market' of liberal economic theory" (Myrdal, 1960: 46-7).

### **Planning the Welfare State**

Even if Myrdal's analysis strongly suggests—contrary to what a number of economists and historians of economic thought often claim, especially in the Austrian tradition—that the liberal epoch was never completely void of state interventions in and state regulations of the markets, he concurs with Hayek that the increasing state intervention and planning that came with the twentieth century "raise a number of questions concerning constitutional law and administrative and political science" (Myrdal, 1960: 56). But Myrdal mainly insists again and again that there is a world of difference between the classical liberal state and the modern organizational state. When we say that the rich countries of the Western world slowly but surely became democratic "Welfare States," what we mean is that these countries made explicit commitments "to the broad goals of economic development, full employment, equality of opportunity for the young, social security, and protected minimum standards as regards not only income, but nutrition, housing, health, and education for people of all regions and social groups" (Myrdal, 1960: 62). Of course and noticeably, the Welfare State is not presented by Myrdal as fully achieved but as an ongoing historical process: it is fundamentally true that the Welfare State was in no country planned as such, but it is also factually true that for the last century the tasks of simplification, coordination, rationalization and achievement of efficiency of national economies were needed, and precisely this explains the kind of state planning we are now experiencing almost everywhere in the Western world. Accordingly, Myrdal writes: "[T]he historical and causal order has been that acts of intervention in the play of market forces came first, and that planning then became a necessity" (Myrdal, 1960: 62). In this process of social change, people's attitudes themselves became more and more "rational," following Myrdal, so that "a need for a rationalizing coordination of them all was pressed upon the state as the central organ for public will" (Myrdal, 1960: 63).

It has to be seen that, for Myrdal as for Hayek, the crucial matter with regard to people's social and economic life in our WCWS concerns *coordination*. But instead of considering that almost all coordination problems can optimally be solved by the market process, as Hayek teaches us, for Myrdal "[C]oordination leads to planning or, rather, it *is* planning, as this term has come to be understood in the Western world. Coordination of measures of intervention implies a reconsideration of them all from the point of view of how they combine to serve the development goals of the entire national community, as these goals become determined by the political process that provides the basis for power. The need for this coordination arose because the individual acts of intervention, the total volume of which was

growing, had not been considered in this way when they were initiated originally” (Myrdal, 1960: 63). Coordination at the state level means, for Myrdal, establishing short-term and long-run forecasts, but also, of course, it means voting policies for commerce, finance, development and social reform in light of these forecasts. Contrary to Hayek’s idea of what state planning means in economic matters, for Myrdal it never means trying to shape a rigid and all-embracing plan. It only means that the state now finds itself responsible for influencing decisively—“directly through its legislation and administration and that of the provincial and municipal authorities, or indirectly through the organizations in the infrastructure that operate under the state’s indulgence and sanction” (Myrdal, 1960: 65)—the conditions under which people can best work and earn their living. For instance, as cities grow, “town planning” becomes more and more necessary (building activity, mortgage credit policies, ownership and renting regulations, etc.). This is what state intervention is about for Myrdal.

As Myrdal clearly argues, the strongest commitment to economic planning in our WCWS is to trying to preserve full employment. Following the Keynesian revolution, economic theory came to place “the responsibility for economic depressions and unemployment on an imbalance between aggregate demand and supply, opening up a rational way for the state to raise investment and production and to create employment simply by raising its expenditure while keeping down taxation” (Myrdal, 1960: 68). Myrdal presents this determination to preserve full employment as “the crowning accomplishment of the democratic Welfare State” (Myrdal, 1960: 69). The immediate consequence of that is that national budgeting came to be viewed as potentially influencing the trade cycle, even though discussion during the 1930s of a planned, counter-cyclical budgetary policy now appears clearly outmoded to economists. Certainly, “[T]he problems of public finance are now inseparably merged with problems of international trade and payments, wages and incomes, money and credit” (Myrdal, 1960: 71). Nevertheless, state planning is the order of the day and accepted everywhere because, on the one hand, the distribution of taxes has a significant incidence on every Western country’s national economy, even when this distribution can be judged insufficiently efficient or inequitable, and because, on the other hand, the influence of public finances on the general business situation, be it national or international, is now widely acknowledged.

With what has to be seen clearly as increasing state planning of the market economy, the discussions like the one over the desirability of a social security net have ended (even the liberal Hayek, often seen as profoundly conservative<sup>23</sup>, acknowledged the need for one). But something else must immediately be added: the central tenet of socialist economic theory, i.e. nationalization and public

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<sup>23</sup> But Hayek does not consider himself as a conservative (see “Why I Am Not a Conservative”, Postscript to Hayek, 1960: 395-411).

ownership of the means of production, had to be revised and pragmatically put aside, so that nowadays even the social democrats in our WCWS accept that banks, insurance companies, and industries be privately owned. It is true that almost none of these organizations and enterprises are truly “private” any more, for they are closely regulated by legislative and administrative controls, initiated primarily to safeguard the interests of the depositors, policy- and capital-holders, so that “nothing much could be attained by their being taken over by the state” (Myrdal 1960: 74): “[A]s a matter of fact, all private enterprises in the advanced Welfare State are already in essential respects publicly controlled or are becoming so—without any nationalization of formal ownership” (Myrdal 1960: 77), so that even in the context of a capitalist and market economy, the industrial firm has to be seen as largely “socialized” (Myrdal 1960: 75)—i.e., concerned by equity and solidarity within the national community which is ensuring its economic growth and financial wealth. Something like a high degree of harmony of economic interests seems to be attained through cooperation and collective bargaining, a social process completely supervised by state regulation. If Myrdal’s analysis can here be said to be in sharp contrast with Hayek’s approach of state intervention and planning, it is because, as Myrdal insists, “[T]his gradual accomplishment of interests is not the old liberalistic one, which was supposed to emerge out of the unhampered working of free forces in the market” (Myrdal 1960: 79). Contrary to what Smith had in mind, public virtue and the nation’s wealth are not the unintended consequences of private vices and individual undertakings: the invisible hand may be at work in the market process, but the coordination which is the social result of this working is itself a “created harmony” (Myrdal 1960: 80), a market induced coordination visibly based on state intervention and planned regulation. But, of course, this created harmony never was and is still not “anybody’s intention” (Myrdal 1960: 80). *Planning was not planned originally*. It evolved progressively and increasingly, and is now overtly aiming to produce a purposive reorganization of the national and international market economy. But the historical process by which it came about was accidental, “less direct and less purposive,” writes Myrdal, “by an unending sequence of acts of intervention by the state, and many other collective bodies, in the play of market forces” (Myrdal 1960: 80). It should be understood that, as Hayek himself attempts to do, Myrdal’s analysis, as divergent as it may seem from Hayek’s, is also a tentative explanatory argument of economic coordination. However, while Hayek is satisfied with the explanation “by the principle” of a highly abstract and *theoretical* mechanism, i.e. social and economic spontaneous order coming into existence through the working of the market process, Myrdal is rather concerned with understanding and precisely qualifying the kind of coordination we are in fact *empirically* observing in our national societies: “[I]n the same way as the ‘created harmony’ of interests in the Welfare State of the western countries was never planned, and thus never ‘created’ in the strict sense of having been purposively attained, so the actual

large-scale planning, which is today a major explanation of the high degree of harmony that actually exists, has remained largely unprogrammable" (Myrdal 1960: 82). For Myrdal, only public policies regulating what goes on in the national economy, not unhampered forces playing freely in the market, can explain this observable coordination.

#### IV.- A METHODOLOGICAL APPRAISAL

One might contest the feasibility or merit of comparing Hayek's and Myrdal's stances on economic planning. For instance, one could perhaps hold that it is like comparing apples and oranges. Of course, if it were simply a question of taste, i.e. a question of esthetic, moral or ideological preferences, then an objective comparison would not be viable, at least not on scientific and methodological grounds. But if the comparison can be made from a social-science and especially from a theoretical-economic perspective, the endeavor is not only acceptable but may in fact be extremely valuable. The differences (intellectual but also moral and political) between the two thinkers are of course substantial, but there is no philosophical gap wide enough to prevent us from crossing from one side to the other. As a methodological point, it may be sound to espouse scientific neutrality if we are working as historians of thought or as sociologists of professional communities. But as philosophers of economics, this approach is neither sufficient nor profitable. We must reconstruct theoretical systems of ideas so as to render them as comparable as possible. Once this has been done correctly, we have to commit ourselves and take a stand, exactly as economists themselves end up doing as part of their own work. An appraisal is needed, and that is ultimately what is at stake here.

It should be noted that Hayek gives a precise definition of "socialism" and of "capitalism", and consequently of what exactly he is talking about. By "capitalism" Hayek "means a competitive society based on free disposal over private property" (Hayek, 1939: 205). On the other hand, Hayek is quick to identify "socialism" with the idea of "planning," not only to say that historically speaking socialism was identified from the start with central planning, but, as he writes in 1935, because "in so far as the main economic problems are concerned, this is still the case today" (Hayek, 1935a: 61). Hayek is well aware of course that "the method of collectivist ownership and control which is essential for any of these attempts to dissociate the distribution of income from the private ownership of the means of production admits of application in different degrees" (Hayek, 1935a: 61-2). What is also very clear to him is that "(T)he method of planning in any case can certainly be used for purposes which have nothing to do with the ethical aims of socialism" (Hayek, 1935a: 62), so that planning can just as well serve quite different if not



opposite ends (tyranny and fascism, for instance). Furthermore and as a central claim, Hayek upholds in a very Weberian fashion that "(O)n the validity of the ultimate ends science has nothing to say" (*ibid.*). But what for him is absolutely decisive is that, if such a planning method is going to be workable, there has to be a central authority which, in the end, even if the whole process is largely decentralized, has to decide what the principles for the distribution of income will be. Hayek furthermore sees as a *necessary condition* of this planning method that this central authority work as a unique and exclusive mind,<sup>24</sup> perhaps even be "some single individual" (Hayek, 1939: 205),<sup>25</sup> and keep steady and rigorous control over all resources. For Hayek, this is completely intolerable because "(T)here can be no freedom of thought, no freedom of the press, where it is necessary that everything should be governed by a single system of thought" (Hayek, 1939: 218). Be that as it may, for Hayek the only question which should concern economists as social *scientists* is the question of whether planning is the best method to obtain the desired social and economic results without provoking at the same time deleterious unintended consequences. To quote him again, "the fundamental question is whether it is possible under the complex conditions of a large modern society for such a central authority to carry out the implications of any such scale of values with a reasonable degree of accuracy, with a degree of success equaling or approaching the results of competitive capitalism, not whether any particular set of values of this sort is in any way superior to another" (Hayek, 1935a: 62-63).

Hayek considers that the monopolistic tendencies of the market economy "have in fact been fostered by interventionist measures," for example, "tariff protection with respect to the formation of cartels" (Hayek, 1935a: 81-2).<sup>26</sup> In contrast, Myrdal sees our WCWS as closely regulated, and points out that "free enterprise [is moving] within a frame set by a fine-spun system of controls, which are all ultimately under the authority of the democratic state" (Myrdal, 1960: 84). Policy structures in such

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<sup>24</sup> "...the planner must not only translate the vague and general 'ends' that command popular approval into a concrete and detailed scale of values...(and) make people believe that the particular detailed code of values which he imposes is the right one. He is forced to create that singleness of purpose which—apart from national crises like war—is absent in a free society" (Hayek, 1939: 206).

<sup>25</sup> Hayek recurrently insists that the planned society will not be guided by "impersonal social forces" and that it will have to be "made subject to the control of a directing mind—that is, of course, in the last analysis, the mind of an individual" (Hayek, 1939: 198). This is perhaps the ultimate paradox of collectivism: *one will decide for all*. By comparison, the apparent paradox of Hayek's "true" individualism could be said to be that society is viewed as the unintended aggregate result and cohesive order of *all* individual economic agents interacting spontaneously together: *all will contribute to create a whole order*.

<sup>26</sup> As Gregory Christiansen remarks, in the United States where it is usually considered that one can find the paradigm case of a free market or competitive economy, "(T)housands of present-day government activities...are in conflict with the Rule of Law: farm price-support programs, timber subsidies, state water allocations, diverse tariffs and quotas for thousand of imported items, tax deduction for interest paid on home mortgages, rent control, community-development grants, legislation giving labor unions exclusive representation rights *vis-à-vis* workers, and government grants of monopoly privilege to certain producers such as cable-television companies and the U.S. Postal Service" (Christiansen, 1993: 52).

fields as international commerce and exchange, taxation, labor legislation, social security, education, health, defense were implemented everywhere and can be said to be, economically and socially, “a conspicuous success” (Myrdal, 1960: 86). Myrdal is of course presenting the Welfare State’s capitalist economy and he is not at all discussing the practicability of a centrally planned or socialist economy. On the other hand, Hayek was for his part interested in discussing not only market socialism *à la* Lange, Dickinson and Dobb, but also planning within the framework of capitalism (see in particular Hayek, 1939). He does not do so systematically because it is not his first concern. Nonetheless, Hayek does not have tender words for what we now call “mixed economy” and, contrary to Myrdal, he is very critical of those who “hope to ‘rationalize’ the so-called chaos of free competition” (Hayek, 1935b: 101). I must further emphasize that Hayek in fact distinguishes between two concepts of “plan.” First, following Hayek, a plan is to be defined as “a system of general rules, equally applicable to all people and intended to be permanent (even if subject to revision with the growth of knowledge), which provides an institutional framework within which the decisions as to what to do and how to earn a living are left to the individuals” (Hayek, 1939: 194). And Hayek is clear about the fact that “this task of creating a rational framework of law has by no means been carried through consistently by the early liberals” (Hayek, 1939: 195). But this is precisely not the kind of plan Hayek intends to be discussing in the socialist calculation debate: the notion of a “plan” occurs here in a second and much narrower sense, and for that matter Hayek would have preferred to use in this context the French term “*économie dirigée*.” In the context of the socialist calculation debate, planning refers to the economic process by which “the central authority undertakes to decide the concrete use of the available resources” and in which “the views and the information of the central authority govern the selection of the needs that are to be satisfied and the methods of their satisfaction” (Hayek, 1939: 196).

Pushing the comparison with Myrdal a little further, I must relate that Hayek blatantly proclaims that “(T)he world of today is just interventionist chaos” (Hayek, 1935a: 67). This is not to say that for Myrdal state intervention and planning should be radically extended throughout our Western democracies. In fact, Myrdal is very critical of such a political view. Indeed, in his 1960 book he writes: “I view as short-sighted those would-be reformers, both in the United States and in other Western countries, who, in their urge to improve society, place an almost exclusive trust in continual extension of state regulations, thereby presenting their fellow-citizens with a sort of ‘etatistic liberalism’” (Myrdal, 1960: 97). Myrdal even grants that the Welfare State has its failings, just as Hayek grants that there are limits to market economy.<sup>27</sup> Yet Myrdal is not at all ready to admit that the failings of democracy in the

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<sup>27</sup> Hayek indeed recognizes the possibility of market failures or, which is about the same, he does not deny “that some amount of central planning (...) will always be necessary.” He adds: “There are

Welfare State, or in Russia, for that matter, can be caused by too much planning. In fact, one of Myrdal's central ideas is that the kind of state intervention and planning that was and still is going on in our WCWS has very little to do with Soviet-style planning. Referring to Russia, Myrdal writes: "The planning which was clamped down after the revolution on that autocratic, poor, and backward country by a totalitarian and monolithic dictatorship is of a totally different nature from the compromise coordination of public policies which has gradually developed in the rich Western countries through a social process in which political democratization, the strengthening of provincial and local self-government, and the growth of an infrastructure of voluntary organizations have been essential elements" (Myrdal, 1960: 105). Contrary to the historical process of state intervention and planning in the western states, the Soviet way of building up an infrastructure implied "the rule of a single, strongly disciplined political party, stretching out its close direction to every village and every workshop" (Myrdal, 1960: 132). This is surely the kind of planning that Hayek, and Mises before him, were targeting and radically criticizing, and they were doing it as though, in a sense, all planned economies were alike. But for Myrdal this supposition is unwarranted, and Hayek's criticism leaves open the legitimate question of the nature of state intervention and planning in capitalist countries, its historical causes and its economic and social observable consequences, regardless of their desirability.

Myrdal is perfectly aware that the WCWS has a tendency to run into inflation. He writes: "To accept an inflationary development without resistance would inevitably have undesirable results for the distribution of real incomes and wealth and for the direction of investment and production" (Myrdal, 1960: 112). Nor does he consider state intervention to suppress or moderate inflation, and to restore balance between aggregate demand and supply without contraction of economic activity, to be problem-free: "The spreading out of such direct state intervention into detailed regimentation results in all sorts of uneconomic misallocation of production and investment" – the very same argument that is made again and again by Hayek. Myrdal even adds: "It endangers the standards of morality in business and in the government departments responsible for the controls. The political and economic brains in the governments and political parties, who should be engaged by the major problems of the national economy, become preoccupied with this petty tinkering. Their planning efforts become wasted in a rearguard fight against the price consequences of an inflationary pressure which they have not had the will and strength to prevent" (Myrdal, 1960: 113). Myrdal also acknowledges pretty clearly the unquestionable fact that under prevailing conditions and within the present institutional infrastructure in

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unquestionably fields, like the fight against contagious diseases, where the price mechanism is not applicable, either because some services cannot be priced, or because a clear object desired by an overwhelming majority can only be achieved if a small dissenting minority is coerced" (Hayek, 1939: 196-7).

most WCWS, we are far from having found the solution to the problem of maintaining stable prices with full employment.

Another characteristic of Myrdal's analysis of economic planning is what he has to say about a third form of state intervention and planning, namely the one that defines the situation in the Third World. Myrdal starts from the sociological fact that "[E]conomists now generally endorse the opinion that the underdeveloped countries need much more planning and state intervention if, under very much more difficult conditions than the now-developed countries ever faced, they are to have any chance of engendering economic development" (Myrdal, 1960: 14). But what predominantly characterizes Myrdal's analysis of state intervention and planning as compared to Hayek's is Myrdal's distinction between what he calls "the three orbits" where this process of state intervention and planning has taken place. If WCWS constitute the first orbit and the Soviet Union the second one, developing countries constitute a third and distinctive orbit. Because "[G]reat poverty is a paramount fact in the underdeveloped countries" (Myrdal, 1960: 121) Myrdal argues that those countries are to be studied as forming a very special case. "Indeed," writes Myrdal, "it is unlikely that they will develop much, or at all, if the state does not from the outset take a much bigger responsibility for engendering development than was taken by the state during the industrial revolution in the Western countries" (Myrdal, 1960: 121). For him there is absolutely no hope that in developing countries industrialization will come about as "the outcome of a cumulative process of spontaneous growth nourished by the enterprise of individual profit-seekers, exploiting new techniques to their own advantage" (Myrdal, 1960: 121). The very fact that those countries must apply planning from the initial stage of underdevelopment makes this process very different from the one that historically occurred in the Western countries. In developing countries, the planning process is akin to Soviet planning, the significant difference being the great poverty level of Third World countries.

This is to say that instead of "pragmatic" and "piecemeal" planning, the Soviet style of intervention in the national economy is a form of "programmatically," "comprehensive" and "complete" planning. But in developing countries, planning is very different, and in a sense it is not even really a *directing* of economic activity. As Myrdal points out, "[N]one of these countries is even approaching the level of planning and overall economic state control which is common in all the Western countries" (Myrdal, 1960: 123). But even when it is akin to the Soviet style of planning, the planning that goes on in the Third World is different because most of these countries do not accept totalitarianism. They aspire to becoming and being democratic and Welfare States, not authoritarian or dictatorial and monolithic states. Following Myrdal, this political aim sets quite narrow limits to the possibility of importing the Soviet style of state planning in these countries, where, in particular, private ownership and management of production and trade is maintained. As he writes, "(T)he offspring of this crossing is a breed of

planning which is as different from the planning which has materialized in the Western countries as it is from the Soviet planning" (Myrdal, 1960: 127). What is mostly characteristic of this kind of state planning is that the developing countries attempt "to apply planning in advance of development" (Myrdal, 1960: 127), in order to create and put in place the very conditions of economic development. These conditions are intimately related to the building up of "organs for self-government, and for collective cooperation and bargaining" (Myrdal, 1960: 133) – the "heart of the problem" for Myrdal. Whereas in the WCWS those organs have historically appeared slowly and spontaneously, growing up "as a result of technological and psychological changes in the gradual development and then, in their turn, [adding] to all the other forces which were driving the state to intervention, coordination, and planning" (Myrdal, 1960: 134-5), Myrdal insists that "[T]he fundamentally different problem facing the state in underdeveloped countries is that it will have to plan to build up such institutions" (Myrdal, 1960: 134).

It is now time to conclude. We have seen, albeit in a cursory manner, how different are Hayek's views on socialism characterized as a centrally planned economy, on the one hand, and Myrdal's observations of state intervention and planning in the capitalist countries, on the other. We have, of course, found points of comparison, if not of convergence. But this does not mean that we have found a way to choose between these two approaches in order to exclude one and praise the other. Economics does not feature crucial experiments that could help us in such a matter. Consequently, I will only add two further remarks in concluding this exercise in comparison and contrast.

Something must first be said about the ideological aspect *versus* the scientific nature of what has been characterized by Hayek as "the economic problem". While Hayek seems to me to be quite convincing in his purely *theoretical* argument, he is not and cannot be as conclusive in his *empirical* argument. Myrdal, for his part, is very conclusive in his *empirical* analysis but does not at all address the *theoretical* arguments that tend to show, following Hayek, that market economy is, *ceteris paribus*, the most efficient way of allocating rare resources to alternative social and economic ends. To go even further, I must say that the empirical data on which Myrdal grounds his moral and political option cannot serve to answer either of Hayek's economic questions, neither the theoretical nor the empirical one.

It is furthermore worth stressing that while Myrdal, quite consistently with his general views on the unavoidable interrelation of empirical research and normative claims in all social sciences and especially in economics (see Myrdal, 1953, 1958, 1969), admits that the question of state intervention and planning of national and international economies is ultimately grounded in ideological and moral commitments, Hayek explicitly takes for granted that, contrary to Myrdal's explicit starting point, this economic problem is *exclusively* for economic theory and empirical research to unravel. For Hayek, this problem is for economic science to resolve, not for moral and political philosophy to decide. I suppose

that, in sharp contrast with both Hayek's and Myrdal's stance on economic planning, I could argue that an optimal viewpoint on this question would require methodically rearticulating a full-fledged economic argument based on an extensive methodological investigation.

Lastly, it must be said that from the standpoint of the history of economic thought and the philosophy of economics, the debate on market socialism on the one hand, and the discussion on the role of state intervention and planning in the Welfare State on the other hand are both important and significant events. In a sense, these two *economic disputes* pertain to one and the same economic debate. As such, this debate, which has certainly not ended yet, may be seen as strongly demarcating the Austrian economic *and* the Swedish research traditions from the standard neo-classical paradigm. But I must emphasize that the philosophical fight and scientific brawl on state economic intervention and planning between the Austrian and Swedish economists, seen as participants in distinct research programs, never really took place.<sup>28</sup> It is a pity that there was actually no theoretical clash between Hayek and Myrdal, because we could have learnt a great deal more about such matters. But since we have been experiencing an Austrian revival during the last twenty years or so, I might suppose that the time has come for this intellectual scrimmage to be launched more systematically.<sup>29</sup>

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<sup>28</sup> As remarked by Bruce Caldwell, "(S)ince the events of 1989, the Soviet central planning model has largely been abandoned by academic advocates of socialism, and a renewed interest in market socialism has taken its place" (Caldwell, 1997: 1857). The new proponents of market socialism (reviewed and discussed in Caldwell, 1997: 1875-1886) insist particularly on what could be called "the Hayekian question," i.e. how planned and competitive economies compare as to the efficient use of knowledge in the economic process (for interesting critical discussions, see also Jossa, 1994, and Zappia, 1999).

<sup>29</sup> Financial support granted by the *Social Sciences and Humanities Research Council of Canada* and also by the *Fonds Québécois de Recherche sur la Société et la Culture* is hereby gratefully acknowledged. I also greatly benefited from discussions held during the *International Workshop on "Austrian and Swedish Economics: Criss-Cross Stories and Current Perspectives"* (CREUSET, University of Saint-Etienne, 22-23 March 2002). Many thanks are accordingly due to participants at this meeting.

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