

Essays in Economic & Business History
2024, 42 (2): 39-54
Published June 18, 2024



Hayek, Ideas, and Economic History

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Abstract

This article examines the role of ideas, tradition, and economic history in the context of F. A. Hayek's theory of social knowledge. While Hayek often emphasized the beneficial consequences of unintended and spontaneous action, his accounts of the transmission of ideas within society identified what he believed were errors in intellectuals' interpretations of economic history. These errors were subsequently transmitted to the mass public and, by structuring common sense understandings of institutions' consequences, influenced political debate and action as well. Although Hayek believed the patterns associated with capitalism's history were capable of understanding and historical explanation, his claims regarding the errors in historians' understanding of economic growth indicate that the spontaneous orders that Hayek defended in the realm of economic action could, in the context of historical inquiry, generate and perpetuate patterns of error and myth.

Key Words: ideas, economic history, F. A. Hayek, spontaneous order, economic evolution.

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ISSN 2376-9459 (online) LCC 79-91616 HC12.E2

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Introduction

Among the most general questions confronting the social sciences involves the causes of Western economic development. Beginning in the eighteenth century, Western economies experienced a productive revolution that transformed economic growth from episodic and geographically limited phenomena into sustained patterns of increasingly efficient production. The durability of this transformation, and the forms of technological innovation and industrialization associated with it, inaugurated the seemingly automatic forms of economic growth that are a distinguishing feature of modern economic life (David Landes 1969 [2003]; Deirdre McCloskey 2013, 2016; Douglass North 2005; North and Robert Thomas 1970; Gerald Scully 1988).

While many factors have been identified as causing this transformation, economic life is often influenced by economic actors' ideas, their theories and beliefs about how to apply new technologies to economic production, and their knowledge of how material capabilities can be productively applied to economic conditions. Although consumers' purchasing decisions rarely rise to the level of conscious understanding or deliberate reflection, firms and entrepreneurs are regularly engaged in complex forms of theorizing and prediction regarding how economic resources can be used to meet unmet demand, or how new or existing forms of technology can be applied in novel ways.

The centrality of entrepreneurs' ideas, and economic systems' capacity for identifying and rewarding efficient and productive entrepreneurial decisions, indicates that economic development is conditioned by how effectively different societies and economic systems manage knowledge. Understanding how different societies have applied such knowledge to economic action has corresponding implications for understanding more general patterns in economic history and development (David Harper 1996; Joel Mokyr 2002, 2005). This indicates that the study of ideas, and how different institutions can influence their development, accuracy, and dissemination, constitutes a distinct realm of disciplinary interest relevant both for economic historians and for the social sciences more generally (Daniel Béland and Robert Henry Cox 2011; Mark Blyth 2003).

Ideas' economic implications are often explored in the context of the incentives that encourage the development of new ideas, how ideas are distinct from public and private goods, and how institutions, such as patent protection and private property rights, influence incentives relevant to the production of new ideas (Kenneth Arrow 1962; Paul Romer 1993). However, a standing tradition in Austrian economics emphasizes how markets facilitate efficient action by *minimizing* actors' need for knowledge and understanding (Friedrich A. Hayek 1937, 1945, 1960). Indeed, Hayek is perhaps unique in how he made the study of ideas central to the social sciences, and how he emphasized the division of knowledge, and how markets generate efficient outcomes by allowing ignorant and cognitively limited actors to rationally orient their action despite their lack of understanding of the economic environments they inhabit.

While many recognize that societies' capacity to create, store, and transmit knowledge have important implications for various aspects of social life, there are different approaches for how to study the impact of ideas upon economic history. For Hayek, the study of ideas is central to the methodology of the social sciences, but is complicated by the fact that their influence over economic action is often less explicit than other realms of society, and thus potentially more difficult to study. Hence Hayek's arguments regarding the limits to economic knowledge raise a series of questions regarding the study of economic history. If, for example, the market's epistemic advantage is that it dispenses with firms' need to understand the causes of price fluctuations, and instead facilitates actions made as a result of tacit judgments and local knowledge, and if the social sciences are not focused on single cases, the study of economic history may remain limited to what Hayek called "pattern prediction". Pattern

prediction means economic systems' tendencies can be grasped even if they are not understood by individual economic actors, remain difficult to predict in individual cases, or are never fully manifested in empirical reality due to confounding variables (Hayek 1967). There is thus a standing question regarding how to study the role of ideas in economic history, historians' ability to accurately reconstruct the sequences that led to specific outcomes, the creation of certain institutions, and the corresponding causes of different developmental trajectories of economic growth.

This article examines Hayek's analysis of the role of ideas in society, and specifically focuses on Hayek's arguments regarding markets and spontaneous orders for economic history and the history of social institutions more broadly. While recognizing the importance of Hayek's arguments regarding the market's epistemic function, I argue that Hayek articulates contradictory arguments regarding the limits to human understanding of spontaneous social processes, and the explanations he offered for how errors in understanding economic history spread to influence public opinion.

Specifically, Hayek's theoretical claims regarding the difficulties facing human understanding of spontaneous orders are contradicted by his accounts of historians' misunderstanding of capitalism. Despite focusing on the beneficial properties of spontaneous orders, Hayek's account of how historians' ideas were subsequently disseminated within contemporary societies to become broadly accepted as common-sense assumptions regarding economic history fulfill all the key criteria of a spontaneous order. Yet, instead of facilitating accurate understanding of economic history, Hayek believed that historical errors had become widely diffused through an unintended and uncoordinated process of idea diffusion. Hence I argue that if one accepts Hayek's theory of spontaneous orders one must reject his analysis of historians who criticized capitalism; conversely, if one accepts Hayek's critique of historians' assessment of capitalism, one must reject Hayek's arguments regarding the beneficial properties of spontaneous orders. In short, either Hayek's arguments regarding the epistemic properties of spontaneous orders are correct or his theories regarding the limits to human understanding of economic-historical developments are correct; however, both these arguments cannot be correct given their contradictory premises.

This article is not merely a critique of Hayek; I argue that despite never articulating a distinction between the nature of spontaneous market orders and spontaneous development of social institutions, Hayek's arguments regarding the price system's capacity for identifying accurate ideas in the realm of production, and the corresponding absence of any analogous mechanism for selecting for beneficial social and political institutions, offers an explanation for why realms of action that are not governed by anything analogous to the price mechanism should fail to exhibit the forms of selection markets exhibit. Indeed, where selection for institutions and traditions are not governed by any method analogous to the price calculations regulating market orders, the absence of decisive tests provided by profit-loss calculations ensures a greater capacity for "error" in realms such as explanations regarding economic history or the creation of social institutions. This argument is illustrated by examining Hayek's views of economic history, and his analysis of how modern democracies were drifting away from the form of liberalism he endorsed.

The rest of this article is organized into two primary sections. The first discusses Hayek's arguments regarding the role of ideas in society, and their centrality for the methodology of the social sciences. This section also examines Hayek's arguments regarding how market prices limit actors' need for knowledge necessary for rational economic action, and the challenges this poses for economic history. Despite recognizing the importance of ideas in economic life, Hayek argued the market allowed decentralized economic actors to respond to price signals without having to understand the causes of price fluctuations. While some have criticized Hayek's account of the market's epistemic function, I argue this account of the market challenges economic historians' capacity to reconstruct prior events, as they must

attain a level of understanding of economic action that market participants themselves do not possess.

The second section examines how Hayek questioned our capacity to reconstruct the history of the myriad decisions and judgments responsible for institutions' origins, which he argued were often the product of human design but not human intent. Hayek's account of the spontaneous origins of traditions and institutions, when combined with his epistemology of the market, poses a series of challenges for accumulating the knowledge necessary to understand the history of economic change and the origins of social institutions and traditions.

This section examines how some of Hayek's own historical arguments are at odds with his theories of spontaneous orders and the market. For example, in "The Intellectuals and Socialism" and his introduction to *Capitalism and the Historians* (Hayek 1949, 1954), he argued that historians and intellectuals had adopted inaccurate accounts of capitalism's consequences that were widely accepted as common sense by the mass public. These ideas were seen to be so obvious that they became tacit assumptions that influenced public opinion, and in doing so, acquired political influence as well.

However, Hayek's account of the spread of historians' ideas within society involved claims about actors' intentionality that were far more specific than the pattern predictions that he thought were appropriate to the social sciences. Hayek's critique of historians' arguments regarding the history of capitalism contradicted his claims regarding the unknowable origins of social traditions and institutions and his arguments regarding the beneficial properties of spontaneous orders. Although he never saw his descriptions in this way, Hayek's analysis of economic historians documented how a series of decentralized, unplanned, and unintended processes resulted in a series of errors in historical interpretations, despite arising from a process that exhibited the key properties of those spontaneous orders that, in the context of economic markets and social institutions, Hayek claimed had beneficial consequences.

Hayek, Ideas, and Historical Knowledge

This section discusses Hayek's account of knowledge and market competition, the historical development of social institutions, and the influence of ideas in actors' behavior. While most of the section focuses on discussing ideas in markets and traditions, I begin with a discussion of Hayek's methodological arguments regarding the centrality of ideas in the social sciences.

Hayek's arguments regarding the centrality of ideas were presented in the essays that came to constitute *The Counter-Revolution of Science*. In this volume, Hayek (1952, 47) distinguished the centrality of actors' ideas for the social sciences and their corresponding irrelevance in the natural sciences: "the facts of the social sciences are merely ... beliefs or opinions held by particular people, beliefs which as such are our data, irrespective of whether they are true or false". For Hayek, actors' ideas were not merely critical to understanding the actions taken by individuals or groups within society, he also believed that social institutions themselves "can be understood only by what men think about them" (Hayek 1952, 50). This methodological position placed critical emphasis on the role of ideas at different levels within society, and many of Hayek's arguments regarding the informational function of prices and institutional development took the centrality of ideas as a critical variable distinguishing social scientific analysis.

Hayek also distinguished his approach to historical analysis from those that defined historical facts by emphasizing their spatial and temporal characteristics, instead suggesting that historians must hold specific theories or models of social behavior that exist prior to their investigating any particular historical event. Hence, Hayek argued that theories of society were necessarily prior to historical understanding, and that actors' ideas were critical in the mental representations employed to analyze history: "Any attempt to define ... [historical facts]

must take the form of a mental reconstruction, or a model, in which intelligible individual attitudes form the elements” (Hayek [1943] 2014, 89).

In this sense, Hayek distinguished between two types of ideas; individual actors’ ideas and beliefs were necessary to understand why they took a specific course of action, a form of influence that Hayek (1942, 285-286) called “constitutive”, yet ideas could also be influential in the sense that they were “speculative” or “explanatory”, whereby ideas were employed to provide the explanatory stories that individuals adopted in order to understand social behaviors and outcomes.

Regardless of the level on which ideas operated, Hayek emphasized that assessing actors’ ideas was also necessary for historical determination of the intended or unintended consequences of human action. Given the centrality Hayek placed upon the unintended consequences of social action, such as the beneficial properties that spontaneously emerged from economic life, any assessment of whether a given social system produced unintended results required understanding what actors’ intentions were in the first place (Hayek 1952, 41). However, the forms of knowledge necessary to make such an assessment accurately required understanding actors’ intended objectives, and then assessing whether the outcomes that they caused did or did not correspond to their intentions (Hayek 1942, 284).

It should be noted that the evidence necessary to demonstrate that an action was unintended is indistinguishable from evidence necessary to identify whether an outcome was intended. In both instances understanding actors’ intentions, and the outcomes of their actions, must be identified. As it applies to the social sciences, such knowledge must necessarily be historical as such actions take place given the ideas that exist at a specific historical moment.

However, Hayek’s (1937, 1945) account of how market prices aggregate decentralized information, and his view of our limited understanding of institutions and traditions, questioned the possibility of human understanding of the complexity market economies exhibited, or the historical evolution of the social institutions and traditions that structure social interactions more generally (Hayek 1960, 1973). Hayek’s epistemic skepticism regarding our understanding of complex phenomena raises a series of questions regarding efforts to reconstruct both economic history and institutional evolution. For if firms do not necessarily understand the myriad causes of market price fluctuations, and if citizens cannot understand the historical processes that lead to the emergence of social traditions and institutions, it is not clear how social scientists can offer accurate historical explanations for economic developments or institutional emergence. To do so would require social scientists to occupy a position similar to a central planner, having to retrospectively collect historical data necessary to reconstruct how a particular economic or institutional development arose.

Indeed, Hayek’s account of the knowledge problem argued markets communicate knowledge necessary for economic coordination by eliminating firms’ need to understand the causes of market price fluctuations, and did so by making use of decentralized knowledge in ways not possible in centralized economic systems (Bruce Caldwell 1997; Hayek 1945). The critical point Hayek emphasized in this account was that firms themselves did not need to collect or understand the factual data that would be necessary for them to understand why prices were moving in a given direction, they merely needed to know that prices were moving in a given direction and that they needed to adjust their actions accordingly.

While Hayek (1945) made several different arguments regarding how markets facilitate rational action by mitigating actors’ need for knowledge, Hayek focused on two properties of markets’ informational function.¹ First, Hayek (1945, 518) depicts the problem of rational economic calculation as involving the way markets make use of factual knowledge whose principal property is its decentralization: “the peculiar character of the problem of a rational

¹ See Edward Nik-Khah and Philip Mirowski (2019) for the multiple explanations Hayek offered.

economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess". The market's peculiar advantage is how it manages to coordinate production and exchange by allowing decentralized actors to make use of their knowledge of time and place that cannot be communicated to a central authority.

Second, in addition to aggregating decentralized information, markets eliminate actors' need to understand the true reasons for why prices are moving in a given direction. In his famous tin example, Hayek considered an instance where the price of tin increased, and asked what knowledge must be known about the causes of the increase in order for the economic actor to respond rationally. Hayek (1945, 525) argued that while there are always undoubtedly multiple causes to price fluctuations, the market eliminates actors' need to possess such information: "it does not matter for him [i.e. the economic actor] *why* at the particular moment more screws of one size than another are wanted, *why* paper bags are more readily available than canvas bags, or *why* skilled labor, or particular machine tools, have for the moment become more difficult to acquire". Instead of having to understand why prices changed in order to respond rationally, prices are an informational substitute, only communicating the critical information firms need to guide their action, namely the good's scarcity. Such information allows actors to respond in the correct direction despite their ignorance of the causal reasons for why a good has become scarce or abundant.

While the market's decentralized system of knowledge aggregation eliminated firms' need to understand the causes of market price fluctuations, Hayek also argued that the limits to human reason had implications for understanding social institutions and traditions. For Hayek, such institutions were, much like market outcomes, not the result of centralized planning or conscious understanding of an aggregate pattern that needed to be understood, but were the result of a quasi-evolutionary process whereby institutions spontaneously emerged for reasons no one had consciously intended, and were then transmitted through a process of imitation and cultural evolution. This argument cautioned against efforts to employ reason to deliberately create new social institutions or alter those that already exist (Hayek 1960, Ch. 2; Hayek 1973, 13; Hayek 1988).

Aside from cautioning against deliberate fabrication of new institutions, Hayek's evolutionary account poses a series of questions for the historical study of social institutions. For Hayek's account of institutions is premised upon a specific interpretation of historical processes, historical actors' mental states, and the relationship between intentions and the consequences of decisions. However, if the limits to reason frustrate efforts to explain why economic changes occurred, or why given institutions were created, economic history faces challenges that are similar to those facing firms whose allocation decisions are made in the face of causes that they themselves do not understand.

Indeed, the aspect of the market's division of knowledge that, for Hayek, is responsible for its rationality, namely the way prices eliminate actors' need to understand the complex factors influencing their changes, complicates the task of economic historians. They are faced with the task of reconstructing the causal reasons for why prices did shift in a given direction, why firms responded in a given way to such changes, and the more systemic implications these myriad decisions had for larger changes in patterns to economic growth or decline. While economic historians could study why specific firms made given decisions in response to price changes, for example by examining the local knowledge firms possessed and acted upon, understanding the causes of the underlying price changes within the economy would require a different level of insight to understand or explain.

Economic historians do not of course simply focus on case studies of firms' reactions to economic circumstances, although some do (for example, Alfred Chandler 1977), and Hayek was skeptical of social scientists focusing solely on explaining singular events or using singular

events to learn about broader patterns (Hayek 1967). However, Hayek's position on the usefulness of quantitative data also raises questions of how to study general patterns in economic history, as his skepticism of using quantitative data undermines the usefulness of statistical analysis of market behavior, as such data did not communicate the local knowledge Hayek (1945, 524) believed was often essential for firm's behavior.

Hayek's epistemic skepticism was not restricted to his explanation of the market's informational function; he believed the limits to human understanding also had implications for the historical understanding of social traditions and conventions as well. Hayek famously argued that traditions and institutions are the products of human action but not of human design, and embody the results of knowledge and judgments made by countless actors "over a few hundred generations" (Hayek 1960, 22; 1973) whose historical origins individuals were typically ignorant of. The rules, laws, morals, and traditions that emerged as spontaneous orders were subject to a form of evolutionary selection, as institutions were much like creating more efficient tools, as "once a more efficient tool is available, it will be used without our knowing why it is better, or even what the alternatives are" (Hayek 1960, 25).

Hayek's argument operated at two levels: the first level involved economic decisions in market economies; the second involved the emergence of social institutions and traditions such as language, law, and property. In the first instance, market actors' ignorance challenged economic historians' ability to reconstruct the decisions and variables that led to the emergence of specific historical trajectories and developmental patterns. In the case of the second, it is difficult to assess whether rules that came to order human action were spontaneous or not, as such an assessment requires identifying the intentions, and subsequent consequences brought about, of large numbers of decisions occurring over generations. Hence in his account of both markets and institutions more broadly construed, Hayek emphasized the limits of knowledge and how such limits impacted our understanding of historical phenomena (Peter Boettke 1990, 69-70).

Although some have criticized Hayek for ignoring how power relationships may undermine our confidence that institutions are selected on the basis of their effectiveness (for example, Robert Antonio 1987), there is reason to ask how, given his skepticism of individuals' capacity to understand the historical origins of institutions and traditions, Hayek himself could possess the knowledge necessary to demonstrate that institutions were *not* the product of deliberate design. Indeed, claiming that institutions resulted from unintentional action requires just as much knowledge regarding human intentionality as claims that they were the result of deliberate effort, as both judgments presuppose an understanding of actors' intentions, and a corresponding assessment of whether they intended to bringing about a given institution.

This matter would be less pressing were there not cases whereby institutions were brought about by deliberate effort, planning, and intentional choice. Examples might include the Chinese state's decision to adopt a market-orientated strategy of economic development that drew lessons from the experience of Soviet privatization, or cases of constitutional design where legal and constitutional principles were the product of conscious deliberation that created specific national traditions (Bruce Ackerman 1993).

Similarly, market behavior involves entrepreneurs who are involved in the manipulation of explicit knowledge as they attempt to predict consumer preferences, design novel and profitable products, and efficiently orient their behavior in changing economic environments. When successful, such entrepreneurial decisions are *not* merely the product of spontaneous actions or "the product of individuals imitating those who have been more successful"; rather, they are the result of deliberate efforts to identify an unmet demand and deliberately use knowledge to respond to a market so as to capitalize upon unrealized profit opportunities (Hayek 1960, 26). Such actions are thus not merely exercises in tacit knowledge or the imitation of others, but involve "common deliberation, by people seeking a solution to their problems through a joint effort" (Hayek 1960, 26). Hayek of course never claimed planning

was absent from market economies; his arguments instead focused on whether planning was best performed in a centralized or decentralized manner (Hayek 1945, 520).

While Hayek argued market prices eliminated firms' need to understand the causes of changes in prices, the interpretations firms adopt to explain why prices have changed are critical, both for the profitability of their actions in response to changing prices, and for historians' subsequent attempts to reconstruct the causes of specific economic outcomes or transitions.

For example, in his illustration of how prices communicate knowledge regarding the scarcity of tin, Hayek suggested that increasing tin prices communicated to firms the essential piece of information, that they must economize on tin, but did not require firms understand why tin had become scarce. Indeed, Hayek argued it was unnecessary for firms to understand the actual cause of tin's scarcity, the price communicated the critical knowledge, namely that they must alter the amount of tin they used.

However, it is not clear that the reasons for the tin price fluctuation are as unimportant as Hayek suggested. Indeed, the rationality of a firm's response may depend upon whether an increase in the price of tin resulted from a change in either supply or demand. For example, if tin prices increase due to increased consumer demand for products made of tin, the firm's adoption of this explanation for a price change will lead to one course of action, while if the firm believes tin prices increased due to a temporary decrease in the supply of tin with consumer preferences remaining unchanged, this interpretation will lead to a different course of action.

Suppose tin becomes more expensive because consumers have come to appreciate tin's aesthetics in products, and this causes products made of tin to appreciate due to increasing demand. In such an environment, firms should not economize on tin or substitute other metals for it, but should instead increase their production of products containing tin. Conversely, if the price of tin increased due to a supply restriction, such as a collapse in several large tin mines, firms would have to adopt a different response to this change to remain profitable. Unlike a situation where tin prices increased due to greater consumer demand for tin products, if tin prices increased due to a supply shortage it is economically rational (and profitable) for the firm to substitute other metals instead of continuing to use tin as an input.

This example becomes complicated if time becomes a relevant consideration. For if a firm believes the price increase is temporary, any change to their production processes may be unprofitable if their response itself incurs costs such as those associated with expanding production. Conversely, if the firm believes the price will rise even higher in the near future, it may be profitable for the firm to purchase *more* tin, the opposite of economizing upon its use. In short, once the element of time is introduced, the firm's most efficient response to price increase becomes ambiguous, as the rationality of the firm's behavior depends upon whether they (correctly) predict whether the price of tin will or will not go even higher as time passes.

In this example, the profitability of a firm's response to the price change depends upon the accuracy of the ideas they adopt regarding why the price changed and what this change means regarding the profitability of their subsequent action. The critical point is simply that the rationality of a firm's response to price fluctuations depends upon whether their ideas accurately track the true causes of a given price fluctuation. While firms may manage to act rationally for the wrong reasons, they must interpret the meaning of a price change. The efficiency of their actions is contingent upon their understanding of economic causation in response to changing prices. This process is interpretive, and dependent upon the ideas that firms adopt, a category of analysis clearly recognized in Hayek's emphasis on how ideas constitute a fundamental aspect distinguishing human action and the social sciences more generally.

In short, the market price system does not eliminate firms' need to interpret why their economic environment is being altered, or what the most profitable response is to such

changes. This indicates that efforts to understand the history of economic behavior cannot ignore the role of ideas in determining both firm behavior and larger shifts within the economy. Given the role of ideas, a critical historical question then becomes why specific firms adopted certain beliefs and interpretations regarding their economic environment, the consequences of these ideas, and their subsequent implications for economic history. If actors' ideas regarding how to respond to price signals are an important factor in determining economic performance, the institutions that either facilitate or retard firms' ability to understand the knowledge necessary for rational economic action also become central for the social sciences. The next section examines Hayek's account of the history of institutions, and specifically considers his arguments regarding how academic and popular understanding of economic history has general social implications in contemporary societies.

History, Error, and Spontaneous Orders

While the role of ideas may remain critical for the rationality of firm behavior, similar questions arise in Hayek's analysis of the role of ideas in the institutions that establish the general framework of rules governing societies. This section focuses on Hayek's account of spontaneous orders, and the difficulties he saw with efforts to understand the origins of social institutions and traditions. While spontaneous orders have been interpreted in different ways (Daniel Luban 2020), this section compares the theories of spontaneous orders found in *Law, Legislation, and Liberty* with historical arguments found in Hayek's introduction to *Capitalism and the Historians* and the arguments regarding the transmission of ideas in "The Intellectuals and Socialism" (Hayek 1949, 1954, 1973). I argue that Hayek's theory of spontaneous orders was at odds with his historical arguments regarding capitalism and the historians, and that the arguments he developed in "The Intellectuals and Socialism" indicate that spontaneous orders, as per Hayek's description of academia and the transmission of ideas in society, could result in errors in historical interpretation that were widely disseminated and adopted, just as they could exhibit beneficial properties in other areas of social organization.

In his introduction to *Capitalism and the Historians*, Hayek (1954, 6) argued that while objective historical facts, such as the location of a battle or the existence of historically important figures, are uncontroversial, explaining the implications of these facts are the result of interpretations produced by historians and other cultural figures. The interpretations historians produced were not merely of academic interest; in so far as they were disseminated throughout society they also influenced public opinion, and in doing so, influenced political events as well. Hayek (1954, 3) also suggested that historical knowledge had additional implications for how societies assessed their institutions, as "our views about the goodness or badness of different institutions are largely determined by what we believe to have been their effects in the past". In this way the transmission of knowledge regarding economic history influenced the political trajectory of contemporary societies, even though this influence relied upon academic ideas being transmitted by other non-academic sources.

Hayek's account of the informational division of labor suggested historical interpretations originated from elite academic sources, and were then gradually spread by intellectuals that Hayek called "second hand dealers in ideas", who were not specialized historians, but were instead those familiar with new ideas. Eventually academic ideas filtered down to influence the mass public's assumptions and ideas about society. Hayek argued certain types of intellectuals exercised different amounts of influence over each stage of this information transmission process; political theorists' writings influenced public opinion less than historians, whose ideas were themselves less influential than those of cultural producers, whose ideas were conveyed in novels, movies, political speeches, and education, which created world views that the public adopted as being obvious, unproblematic, and reflective of "common sense".

In this account, Hayek offered a general framework for understanding the production of culture; driven by creative ideational entrepreneurs at the apex, followed by a more numerous class of intellectuals who he labeled “second hand dealers in ideas”, whose principal task was to apply others’ ideas to different aspects of society that they lacked expertise in, and then the mass public whose world-views were bounded by, and reflected, the assumptions and understanding of social theorists, historians, and intellectuals (Hayek 1949, 417).

This theory of the social transmission of ideas is notable for meeting the criteria for many of Hayek’s arguments regarding the properties of spontaneous social orders. However, Hayek claimed that the ideas widely adopted by the public regarding capitalism’s history were *inaccurate*, and, the errors in both academic and popular understanding of economic history were at odds with those Hayek endorsed. Hence, Hayek (1954, 9) noted it would require “several books” to demonstrate that “most of what is commonly believed ... not merely by radicals but also by many conservatives, is not history but political legend”.

Instead of being based upon an accurate account of capitalism’s history, Hayek (1954, 9) argued the ideas and assumptions that dominated public opinion on questions regarding capitalism’s economic consequences were “folklore” and “myths”. However, the errors in popular understanding of capitalism’s history were not due to overt censorship of contrary voices, nor were they the result of deliberate efforts to propagate inaccurate ideas or mislead the public. Rather, they were the result of popular exposure to the ideas that filtered down from well-intentioned academic efforts to understand the past, and interpretations that academics of “good will” proposed and large numbers of well-intentioned cultural elites had then spread (Hayek 1954, 9).

Despite maintaining that these interpretations were not justified by historical data, Hayek believed inaccurate interpretations of capitalism’s history were widely adopted by intellectuals, and then transmitted to the mass public to the point that they had become ingrained and accepted as tacit assumptions that were so obvious that they never needed conscious articulation or proof. Rather, these assumptions were “determined by a slow and immensely intricate process which we can rarely reconstruct in outline even in retrospect”, and they influenced contemporary decisions that wound up being structured “by what happened long ago [and] without the general public ever knowing about it” (Hayek 1973, 70).

Hayek’s account of the cultural process was one whereby historical accounts of capitalism’s history filtered down to the mass public, influencing public opinion via the default assumptions large numbers of people held regarding economic history. However, in offering this account of information transmission, Hayek also presupposed that he possessed a more accurate understanding than the historians whose ideas had come to influence popular “common sense” understanding of economic history.

The process leading to historians’ mistaken interpretations regarding economic history emerged in a manner that was entirely consistent with the properties Hayek ascribed to spontaneous orders. Just as spontaneous orders were the result of human action but not of intentional design, historians’ interpretations of capitalism’s consequences were the unintended consequence of well-meaning scholarly inquiry that was not directed by any central authority. The transmission of historians’ interpretations regarding economic history to intellectuals, who then transmitted historians’ ideas to the mass public, resulted in the adoption of ideas that had been filtered through prior generations of scholarly inquiry, yet the public had little awareness of the decentralized process of knowledge transmission responsible for the conclusions they assumed were settled fact. Although Hayek and other Austrians have often emphasized the beneficial properties of tacit knowledge (for example, Don Lavoie 2001), Hayek described a communication process generating tacit knowledge, namely the mass public’s assumptions regarding capitalism’s consequences, that were spread via decentralized and self-organizing principals of academic inquiry.

Although Hayek never saw his argument in this way, his historical analysis indicates that tacit forms of knowing can lead to mistaken interpretations just as readily as they may produce beneficial consequences. Indeed, Hayek argued popular assumptions regarding economic history were based upon incorrect interpretations reached by prior generations of historians that were reinforced by the wider political culture they inhabited. Despite his belief that these interpretations were in error, the intellectual process responsible for the creation of these historical interpretations exhibited the characteristics of spontaneous orders that, in other realms, Hayek typically celebrated.² Similarly, in offering what he believed was a correction to the dominant interpretation historians had given to economic history, Hayek's personal historical judgments generated conclusions at odds with those that had emerged from decentralized historians' well-intentioned efforts to understand what they saw as capitalism's injustice.

Prior to discussing the implications of this point for Hayek's views of knowledge and spontaneous order, it is worth focusing on how Hayek was convinced that historian's interpretations were incorrect in the first place. In *Capitalism and the Historians*, Hayek cited several arguments scholars had advanced for why claims showing that "a more careful examination of the facts has, however, led to a thorough refutation of this belief" (Hayek 1954, 10). In contrast to those claiming capitalism impoverished the poor, Hayek (1954, 12) cited J. L. Hammond stating: "statistics tell us that ... earnings increased and that most men and women were less poor when this discontent was loud and active than they were when the eighteenth century was beginning to grow old in a silence like that of autumn".

Note that Hayek's conclusions were reached based upon the use of statistical data, which Hayek believed revealed capitalism's beneficial effects upon population dynamics as well, noting: "the effect of the rise of modern industry on the growth of population, statistics tell a vivid tale" (Hayek 1954, 17). In employing quantitative evidence to argue for capitalism's beneficial consequences for standards of living and population trends, there is little mention of Hayek's claims that "blind transfer of the striving for quantitative measurements ... [is] probably responsible for the worst aberrations and absurdities produced by scientism in the social sciences" (Hayek 1952, 114), and it is unclear why Hayek believed statistical evidence was valid when used to demonstrate that capitalism improved living standards, but inapplicable in other macroeconomic settings and in the study of economic history more generally (see Richard Bronk 2013).

Regardless of whether inconsistencies exist in Hayek's views regarding the use of quantitative data, it is unclear how to reconcile the errors generated by decentralized spontaneous processes in the case of historical interpretation of economic history with Hayek's arguments regarding the beneficial nature of the spontaneous evolution of institutions and tradition. If spontaneous orders can generate the kinds of errors that Hayek claimed were exhibited by historians' interpretations regarding capitalism's consequences, Hayek is implicitly suggesting that the reconstruction of the institutions' history was not only possible, but capable of refinement, as he believed his own understanding of capitalism's history was more accurate than those that had emerged from decentralized academic inquiry.

However, if Hayek had managed to arrive at a more accurate interpretation of institutions' consequences, it is unclear why this form of historical understanding could not also be employed in the design of social institutions. Either Hayek's account of the epistemic problems facing efforts to understand the history of institutions and tradition is in error, or the

² Viktor Vanberg (1986, 78-79) discusses how Hayek believed spontaneous orders required appropriate organizing rules to generate beneficial consequences. However, Vanberg points out the difficulties in establishing how to assess whether rules are or are not appropriate without simply defining them in terms of the beneficial consequences they produce.

outcomes generated by spontaneous orders can be inaccurate and mythic, and in ways that are potentially harmful but in a manner that could be corrected and refined.

Indeed, examples such as Hayek's role in the Mont Pelerin Society led to a deliberate effort to create economic and philosophical arguments that were not the unintended result of uncoordinated or decentralized evolutionary processes, as were his advocacy for creating a Central European College to familiarize elites with the liberalism of Locke, Milton, Hume, and Smith (Caldwell and Hansjoerg Klausinger 2022, 551). Hayek's effort included securing financial support, organizational decision-making, and creating the network of thinkers who would explore arguments and justifications for a liberal order (Angus Burgin 2012, 100-103). If anything, the ideas and arguments Hayek and others developed were the result of a planned process, not the result of spontaneous action, and his efforts were an implicit recognition that the ideas Hayek believed in were not automatically being selected via a quasi-evolutionary process.

While Hayek recognized the importance of ideas in governing social action, his arguments regarding the epistemic implications of market prices, and the difficulties facing efforts to understand the historical origins of social institutions and traditions, identified a series of challenges for efforts to study the role of ideas in the economy and within larger society. Yet Hayek's arguments regarding spontaneous orders were in tension with his arguments regarding historians' errors in their understanding of capitalism. While Hayek argued historians' understanding of economic history became widely dispersed, creating errors in popular understanding of capitalism, his account of how these errors came about is in tension with his theoretical arguments regarding the beneficial consequences of spontaneous orders as manifested in traditions and institutions.

This tension was a result of Hayek claiming that tradition and institutions and the market were all the result of spontaneous processes that shared similar epistemic properties. However, there is no reason why explanations of the properties of these two realms of social behavior (the market and traditions/institutions) must be conflated, and there are clear reasons within Hayek's own arguments for why differences exist in how markets select for accurate ideas regarding efficient economic production and societies' selection of beneficial or efficient traditions and institutions.

On the one hand, Hayek developed specific arguments regarding how markets identify and reward individual firms that adopt rational ideas about how to satisfy consumer demands efficiently. In the midst of complex economic forces and changes, market prices, and the profit-loss calculations they enabled, revealed the comparative accuracy of firms' ideas regarding efficient responses to scarcity.

However, in the cultural realm of ideas regarding politics, institutions, and history, there is no corresponding institution akin to the market price system that can adjudicate between contending interpretations regarding, for example, capitalism's consequences. Rather, more subjective forms of historical interpretation must be employed to assess rival claims regarding historical causation, and there is nothing analogous to the market's profit-loss calculations that can be employed to assess the comparative accuracy of historians' interpretations. Hayek's arguments in *Capitalism and the Historians* suggested a decentralized system of knowledge production generated by historians' interpretations of economic history had disseminated *inaccurate* ideas that become tacit assumptions held by the mass public.

These assumptions were taken to be so obvious and unproblematic that they were accepted as common sense, and in being so accepted, derived their power from the fact that they no longer required justification. In claiming capitalism immiserated the poor, these assumptions influenced public opinion, and in Hayek's mind, created a bias away from the market and in favor of various forms of economic intervention. Hardly a deliberate effort, this process was the unintended consequence of well-intentioned academics that resulted in tacit knowledge creation, and in doing so, satisfies the key criteria for a spontaneous order.

It is beyond the scope of this article to examine how this process had implications for Hayek's theory of social evolution. However, it is worth noting that Hayek's observations in the introduction to *Capitalism and the Historians* and "The Intellectuals and Socialism" suggested that the spread of certain ideas can influence societies' understanding of their institutions in ways that are unrelated to the non-biological forms of group selection, namely selection for rules that contributed to the "efficiency of the resulting *order of the group*", which elsewhere Hayek argued were the key principle of selection for efficient social institutions (Hayek [1967] 2017, 279, 284).³

Despite endorsing spontaneous orders' beneficial properties, Hayek described how the transmission of erroneous historical interpretations arose as a result of a process that mimicked the essential criteria of a spontaneous order. The decentralized manner in which ideas that Hayek opposed were generated, and their transformation into tacit assumptions held by the mass public, had little bearing on their accuracy; Hayek believed academic historians' inaccurate beliefs about capitalism were subsequently transmitted to intellectuals and eventually came to be adopted as common sense by the mass public.⁴

Although he never developed his arguments along such lines, Hayek's reflections on economic history indicate that he gave accounts whereby spontaneous orders may reinforce errors in some settings just as they may curtail them in others.⁵ Explaining why spontaneous orders may generate errors absent intentional efforts to deliberately mislead is a fascinating subject for historical analysis, indicating that the study of ideas is relevant for understanding the actions of firms and industries, and also for the development and adoption of ideas regarding the general rules governing societies.

Conclusion

A central theme of Hayek's thought involves the way rival social arrangements influence knowledge, and either mitigated or exacerbated the effects of ignorance on human affairs. Hayek's account of the market price mechanism, like his arguments regarding the limited understanding of social traditions, involved studying how actors were able to rationally orient their behavior despite their absence of knowledge and understanding.

However, Hayek's reflections on the transmission of historians' ideas regarding the history of capitalism, ideas that he believed were inaccurate and mistaken, met most of the key criteria for spontaneous orders that he typically argued had beneficial consequences. Hayek's understanding of how ideas were transmitted in contemporary society focused on the collection and interpretation of factual data by professional historians, whose ideas were themselves guided by theories created by academic social theorists, and the subsequent transmission of historians' ideas to intellectuals and the mass public. Hayek believed this process of idea transmission resulted in the public adoption of a set of common-sense assumptions and world-views regarding the consequences of institutions.

In the realm of the market economy, ideas were important determinants of innovation and entrepreneurial actions; the innovations entrepreneurs create may involve temporary adjustments to market conditions, the introduction of a novel technology, or discovery of a new market that previously did not exist. Unlike the fleeting consequences of the economic entrepreneur who focuses on using their local knowledge to adapt to changing market

³ The nature of evolutionary arguments, and the nature of group selection, in Hayek's thought is contested. See, for example, Caldwell (2001) and Gerald Gaus (2007, 241) who notes: "It is not clear in what sense Hayek advocated group selection".

⁴ For a similar analysis regarding the role of elites in the transmission of ideas within democratic societies see Philip Converse (1964).

⁵ For a discussion of contemporary Austrian economists' reluctance to examine both the beneficial and harmful effects of spontaneous orders see John Meadowcroft (2019).

conditions, the creation and transmission of ideas to large numbers of people created new social contexts that restructured what individuals thought about social institutions, and in doing so influenced what they thought about the societies they inhabited. Despite never describing his analysis in this way, Hayek's account of historians' account of capitalism is an example of the spontaneous production and dissemination of ideas, the subsequent popular adoption of which could have unintended political consequences.

As Hayek recommended, understanding how different institutional systems facilitate or retard the production of new ideas and the organizational context that helped specific ideas spread or persist, could help explain the different trajectories exhibited by rival societies throughout time. However, whether an idea emerges from a spontaneous or decentralized process or rule may have little bearing on its merit, and the unintended order resulting from it may be good or bad despite arising as a result of no one's intentions.

Although Hayek developed clear explanations for how competition created a tendency to reward firms that held accurate ideas regarding efficient responses to scarcity, there was no similarly specific account of the selection process governing how efficient institutions and rules were selected by society. Hayek's account of the transmission of historians' interpretations regarding economic history described a process whereby Hayek believed errors were transmitted that led to inaccuracies in social understanding of institutions. While this article has argued that there are inconsistencies in Hayek's theory of spontaneous orders and his description of the development and transmission of historical knowledge, Hayek's analysis is notable for the emphasis it placed upon the role of ideas, both in economic action, and in the narratives societies adopted regarding the operation and consequences of their own institutions and traditions. This emphasis did not treat ideas as a secondary matter or as mere rationalizations, but instead suggested they played a critical role in the social sciences more generally.

Acknowledgements

Thanks to Paul Lewis, Adam Martin, John Meadowcroft, and three anonymous referees for helpful comments and suggestions.

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