Hayek’s “Inter-Subjectivism”
–A Trial Interpretation of His Methodology– *

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The works of F. A. Hayek¹ have been extensively studied since the mid-1970s. These studies are divided into two groups: those that investigate his economic theories on the basis of his early works and those that focus on his social philosophy as is evident in his later works. In addition to this division, some researchers critically maintain² that Hayek incorporates two incompatible methodological positions—methodological individualism and holism. E.F. Paul refers to this as a “tension”³ in Hayek. The problem of “two Hayeks” exists even today. However, in conjunction with the plan of editing Hayek’s works, efforts have been undertaken in recent times to attain a consistent perspective of Hayek by making use of the unpublished manuscripts that were discovered after his death⁴.

This paper has two aims: first, it wishes to integrate the two, apparently contradictory faces of Hayek by focusing on his subjectivism; second, it attempts to present a new interpretation of his subjectivism with respect

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³ Paul [1988].
⁴ For an example, see Caldwell [2003; 2004], Egashira-Tomo [2003], Yoshino [2006].
to his methodology.

Although the concept of “subjectivism” has no unified definition in philosophy, as far as economic theory and thought are concerned, we can rely on A.H. Shand’s explanation:

(T)he theory that holds that the private experience of the individual is the only foundation of knowledge of the world⁵.

In order to understand the characteristic features of Hayek’s subjectivism, it is necessary to mention another renowned subjectivist in economics, G. L. S. Shackle⁶. Shackle was Hayek’s student, and as a result, he was much influenced by Hayek. However, even while considering the works of both subjectivists under the common category of “subjectivism,” an attentive researcher can uncover considerable differences between them. In my opinion, a comparison of their respective methodologies can provide a good starting point for this paper.

The first part of this paper examines Hayek’s subjectivism in connection with the knowledge problem. The second part focuses on Shackle’s subjectivism as regards the decision-making of individuals. Following this, in part three, there is an attempt to identify corresponding elements in the ideas behind Hayek’s methodology. Finally, in part four, we contend that Hayek’s subjectivism—as distinctive from Shackle’s—can be interpreted as “inter-subjectivism.” Although such a contention is provisional as yet, it is my intention to submit this trial interpretation for an open discussion of Hayek researches in order to receive valuable

comments for further research.

1. **Hayek’s subjectivism**

Hayek’s subjectivism is most explicit in his works that deal with the nature and function of knowledge. In this section, we will highlight the problem of knowledge as explored in *The Counter-Revolution of Science* (CRS, 1952).

First, we will focus on the nature of the knowledge that is possessed by every individual in daily life. As Hayek clearly stressed in *CRS*, the nature of the knowledge possessed by the individuals who perform transactions in a market is characterized by innate ignorance. “It (knowledge) only exists in the dispersed, incomplete, and inconsistent form in which it appears in many individual minds”\(^7\). Further, as the citation itself implies, this kind of knowledge is essentially subjective.

The adjective “subjective,” in this case, implies that the matter concerned depends significantly on personal interpretation. With the use of the term “subjective,” Hayek visualizes a common structure as well as the differences in the consciousness of individuals who act in the market. “(T)he knowledge and beliefs of different people, while possessing that common structure which makes communication possible, will yet be different and often conflicting in many respects”\(^8\). For example, the use of the word “market” is based on a vague but common interpretation, despite the fact that the concrete image of a market differs from one individual to another. However, as long as individuals share a common idea of what

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\(^7\) Hayek [1952a] p.30.
the market is, they can communicate with the use of this word.

Subsequently, we examine the nature of the knowledge with which social scientists are concerned. As Hayek stated in *CRS*, the knowledge that is analyzed by a social scientist (in Hayek’s words, an “inspector”) is also subjective. Therefore, according to Hayek, social facts both in daily life and in the social sciences are the products of the interpretations of people. This aspect distinguishes the “facts” in the social sciences from those in the natural sciences. Thus, for a social scientist, the nature of knowledge is only partially fixed. “Most of the social or human actions are not ‘objective facts’ in the special narrow sense in which this term is used by the Sciences”⁹.

This insight into the subjective nature of social facts has significant implications. Since individuals behave on the basis of the knowledge that is separately interpreted by them, the nature and effect of individual behavior varies according to the interpretations of individuals. “So far as human actions are concerned, the things are what the acting people think they are”¹⁰. Moreover, “(n)ot only man’s action toward external objects but also all the relations between men and all the social institutions can be understood only by what men think about them”¹¹.

In that case, the question emerges: what is the role of social scientists? In other words, how can a social scientist comprehend the results of human actions? This leads us to a further consideration of the nature of order in the social sciences.

Hayek introduced the idea of “spontaneous order” as a key concept in his social theory. He repeatedly explained this term as a system that is “the

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result of human action but not of human design”\textsuperscript{12}. However, as mentioned before, Hayek considered the knowledge possessed by individuals to be inevitably partial. Thus, individuals behave according to a knowledge that is essentially incomplete. This leads to the question: how can an individual behave harmoniously in a spontaneous order? How do individuals adjust their actions with respect to each other in a market? According to Hayek, this problem was solved by the emergence of rules.

Hayek maintains that social knowledge is accumulated in the rules. Individuals need to cope with uncertainty by following rules that exist in an ordered format. Rules guide the actions of individuals, and consequently, individuals can conquer their innate ignorance, to some extent.

Rules are devices for coping with our constitutional ignorance”\textsuperscript{13},

or

(\text{T}he need to rely on abstract rules in maintaining a spontaneous order is a consequence of that ignorance and uncertainty\textsuperscript{14}).

I would like to summarize the main points of the concept of knowledge as described in Hayek and examined in this section. For Hayek, knowledge is essentially incomplete. However, it can be supplemented in spontaneous

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\item[14] \textit{Ibid.}, p.127.
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order by a rule-following behavior. Since the freedom of action is necessarily grounded on the freedom of knowledge, Hayek believed the latter to be an undeniable advantage of living in a liberal society.

2. Hayek’s subjectivism contra Shackle

2.1 Shackle’s subjectivism

Since Shackle’s works encompass a wide range of subjects, we need to focus on a specific subject from among them. Shackle’s ideas are sometimes so unique that it is impossible to compare the ideas of other scholars with them. However, by focusing on his theories regarding the decision-making of individuals, we obtain a valuable counterpole to Hayek. The core concept behind Shackle’s theory is associated with the problems regarding the behavior of an individual under the condition of uncertainty.

This section contains a detailed examination of Shackle’s theory. At the onset, it is important to note that in his works, Shackle developed a unique conception of “time.” According to him, time exists exclusively in the present, and individuals also behave only in the present. The past and the future are merely the products of the interpretations of individuals; in other words, they matter only in our minds. To borrow Shackle’s phrase, time is always the “moment-in-being.” Thus, it cannot be grasped objectively but has to be comprehended subjectively. “What we know I thought and thought is the present. What is, is what present, transient thought tells us of. In this all that is, is in the present.”

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15 For example, in this book, we have attempted to provide a general theory regarding decision-making. However, we have illustrated the theory using examples from economics (Shackle [1961] p.274).
Individuals who attempt to rush into action formulate their plan of action on the basis of the expectations that they have in their minds. Therefore, an individual initially creates his own “future” in his mind, and his future behavior will be according to this mental conception. However, the moment in which he behaves is invariably situated in the present, not the future. In keeping with Shackle’s concept of time, the past and the future—in other words, memory and expectation—are situated in the minds of individuals.

Second, let us start with a consideration of Shackle’s explanation regarding the manner in which an individual formulates his plan and accordingly decides his own behavior. Shackle stresses the decisive role played by the “imagination” in decision-making. “(T)ime as the present is concerned with originating possible contents for time to come. This is a business of imagination”\(^\text{17}\). Shackle uses the word “imagination” in the sense of an ability to expect events that are likely to occur, not in the sense of fantasy. By allowing his imagination to operate, an individual can collect “action-schemes” and choose his own behavior.

The passage cited above clarifies Shackle’s concept of knowledge. According to Shackle, if individual knowledge is perfect, there will be no problem of choice. However, if an individual does not know or cannot expect anything regarding the results of his behavior, the decision becomes “unbounded.” In other words, an individual is unable to decide his own behavior in a market. Shackle regarded the assumption of perfect foresight as meaningless. Thus, the decision-making that results from individual behavior in a market exhibits the feature of a “choice in the face of uncertainty”\(^\text{18}\). Therefore, the problem of decision-making arises not

\(^{17}\) Ibid., p.9.
because individuals have imperfect knowledge but because their ability to choose from various alternatives is incomplete.

In this context, we will examine in detail the manner in which individuals decide their own behaviors in a market, in accordance with Shackle’s supposition. On the basis of his collected action-schemes, an individual can expect the best and the worst results as outcomes of his behavior. Such results were called “rival choosables” by Shackle, and their consideration helps explain his concept of decision-making. The manner in which an individual decides his own behavior is explained using two criteria: the first is the criterion of “potential surprise,” which implies the level of surprise experienced when an expected event occurs\(^\text{19}\); the other is the “good state of mind,” which is another level of desirability. In Shackle’s theory, the way in which an individual depends on his behavior—in other words, an individual’s choosing between the “rival choosables”—is based on his expectation, which is created with a consideration of both “potential surprise” and “good state of mind.”

The main points regarding Shackle’s subjectivism concerning the decision-making of individuals can be summarized accordingly. Shackle criticizes the assumption of perfect foresight and does not refer to such standard concepts as demand, supply, and utility. He is exclusively concerned with the factors that decide the decision-making of individuals in a market. In this regard, it is important to note that according to Shackle’s theory, an individual decides his behavior only by himself.

### 2.2 Hayek contra Shackle

\(^{19}\) Shackle [1979] p.110. “An individual degree of belief in a hypothesis can be thought of as consisting in a degree of potential surprise associated with the hypothesis, and in another degree associated with its contradiction.”
The methodologies of both Hayek and Shackle are largely subjective; hence, to some extent, they are similar. However, Shackle’s academic contributions oppose Hayek’s theory. In this regard, we can consider Shackle’s criticism of Hayek. Shackle’s theoretic standpoint denies Hayek’s concept of equilibrium. The following excerpt clearly indicates the difference between their methodologies and thereby clarifies the peculiarity of Hayek’s methodology.

In *Economics and Knowledge* (EK, 1936), Hayek maintained that economists must take into consideration the concept of time. The following expalicates Hayek’s view on the matter:

> Since equilibrium is a relationship between actions, and since the actions of one person must necessarily take place successively in time, it is obvious that the passage of time is essential to give the concept of equilibrium any meaning\(^\text{20}\).

In a careful analysis of Hayek’s concept of time, Shackle pointed out that although Hayek emphasizes the importance of the concept, he is unable to explain it perfectly. In Shackle’s opinion, the concept of time in Hayek’s economic theory contains no distinction between the present and the future.

> I think the distinction is needed here between the notion of time-to-come, which is plainly essential to the existence of any plan, and the notion of the actual lapse

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\(^{20}\) Hayek [1937 (in 1948)] p.37.
of time, that is, the enactment of an historical sequence of events\textsuperscript{21}.

As already mentioned, both Hayek and Shackle initiated their discourse from a subjective disposition of knowledge. However, they subsequently progressed in different directions. In other words, our examination of Hayek and Shackle is with respect to the targets of their theoretical analysis. While Shackle made a significant contribution to the concept of the time horizon in individual economic behavior, Hayek explored simultaneous order in his socio-philosophical reflections. Thus, the scope of our study shifts from the difference in their respective concepts of time to Hayek’s inquiry into whether and how individual behaviors can generate a social system—also called a “spontaneous order.”

Let us consider the object of this consideration as observed in both. By introducing the concept of spontaneous order in his social theory, Hayek explained how subjective knowledge can overcome incompleteness. According to Hayek, the knowledge regarding the results of the trials and errors that are, thus far, committed by individuals is accumulated in spontaneous order. The individuals who live in the present can use this accumulated knowledge. As G. Hodgson frequently stated\textsuperscript{22}, although Hayek’s explanation is often evaluated as being theoretically vague, it fittingly presents his concept of knowledge. Hayek maintained that the incompleteness of individual knowledge is compensated by the support of order.

In contrast to Hayek, Shackle regarded an individual as being able to decide his own behavior. Accordingly, Shackle’s methodology was often

\textsuperscript{22} Hodgson [1993].
referred to as a “radical subjectivism.” Some questions regarding Shackle’s subjectivism arise in this context. As R. Koppl accurately pointed out, Shackle’s theory can be considered nihilistic because it is based on the tautology that “individuals weigh up means to achieve ends and only after, weigh up ends.”23 In other words, it is not possible for individuals to exercise their choice in any way. There is no basis on which individuals can behave freely in a market. In this was, Shackle’s theory runs the risk of appearing nihilistic.

In addition, it is my opinion that Shackle is unconcerned about the state of the entire system in a society—an aspect that preoccupied Hayek throughout his life. In his later works, Hayek attempted to explain the mutual coordination among individuals in a social system. Nevertheless, the manner in which an individual conceives of the world is not the focal point of Hayek’s work.

Hayek assumes that when faced with the imperfectness of knowledge, an individual acquires a supplementary support from the social order. He does not or cannot decide his behavior only by himself. In this way, Hayek’s subjectivism is not very radical—for some, it even represents a compromise24. However, it is more appropriate to understand that Hayek indicated a new direction through his discussion of the knowledge problem. It is from this perspective that I interpret Hayek in this paper.

3. Hayek’s inter-subjectivism

3.1. Inter-subjectivism in Hayek’s writings

Although Hayek’s methodology is less radical as compared to

23 Koppl [2001], p.187
24 For example, see Etigo [2003].
Shackle’s, Hayek avoids being nihilistic. As mentioned above, Hayek’s subjectivism is concerned with two interests: the first is with regard to the subjective disposition of the knowledge that is possessed by each individual, and the second, more important interest concerns the manner in which individuals with subjective knowledge communicate and coordinate in spontaneous order. It is in the context of this second interest that we refer to Hayek’s subjectivism as “inter-subjectivism”—particularly in the sense of “inter-personal subjectivism.” To be more precise, inter-subjectivism is the methodological position wherein the subjective recognition of individuals can be coordinated. In terms of the knowledge problem, inter-subjectivism is a striking feature of Hayek’s methodology.

Since the early years of his work, Hayek’s concern has been to illustrate using economic theory the manner in which the behaviors of two or more individuals harmonize with each other. To cite a simple example,

I emphasize the distinction between the inter-compatibility of individual plans and the correspondence between them and the actual external facts or objective data. I do not, of course, mean to suggest that the subjective interagreement is not in some way brought about by external facts...the point is that pure equilibrium analysis is not concerned with the way in which this correspondence is brought about.25.

Moreover, in his later days, Hayek was interested in how individual

25 (Hayek [1937] p.44).
behavior could be harmonized in the entire social system. From this point of view, Hayek’s interest in the harmony of individual behavior is a consistent feature in his whole work. In other words, Hayek always takes into consideration the factors that enable the link between one subjectivity and another.

As a further example of his inter-subjectivism, let us consider the following quotation from his psychological writing. The book *Sensory Order* (SO, 1952) was published in the same year as *CRS*. In this unique book—as in so many other publications of Hayek—his inter-subjectivism is clearly expressed.

We also learn that what appears alike or different to one usually also appears alike or different to other men\(^{26}\).

Or

(T)he order of sensory qualities...can be recognized as present actions which are not directed by the consciousness or by the human mind\(^{27}\).

In the above instance, we notice that this description allows for the interpersonal medium.

### 3.2 Hayek’s rule concept

We will proceed with an example that indicates that Hayek’s inter-subjectivism was a core aspect of his social philosophy. For this, we

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\(^{26}\) Hayek [1952b] p.23

\(^{27}\) *Ibid.*, p.23
refer to Hayek's concept of rules. Hayek uses the idea of a “rule of law” not in the sense of the application of norms with a specific purpose but in the sense wherein unmotivated norms are applied impartially. According to him, the “rules of just conduct, which are end-independent, cannot determine what anyone must do...but only what he must not do”. Hayek considers that rules are indispensable for individuals in order for them to conquer their innate ignorance without the use of coercion.

The rule concept that Hayek advocates is embodied in the shape of the common law in liberal society. The point I wish to stress here is that law is an inter-subjective medium and plays a role in connecting an individual with other individuals, as also with order.

Further, we will examine the common law that Hayek discusses in terms of inter-subjectivism. Let us examine the relationship between individuals and law. As seen above, the knowledge of the results of the trials and errors that were committed by ancestors is embedded in rules. Consequently, by mediating between these rules in a liberal society, individuals can utilize the knowledge of other people. Hayek admits that this is one of the most essential merits of a liberal society, as follows:

We understand one another and get along together, are able to act successfully on our plans because, most of the time, members of our civilization conform to unconscious patterns of conduct, show regularity in their actions that is not the result of commands or coercion, often not even of any conscious adherence to known rules but of firmly established

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28 For detailed arguments regarding Hayek's rule concept, see Fleetwood [1995].
habits and traditions 30,

or

(T)he law will consist of purpose-independent rules which govern the conduct rules of individuals towards each other, are intended to apply to an unknown number of further instances, and by defining a protected domain of each, enable an order of actions to form itself wherein the individuals can make feasible plans31.

3.3. A trial interpretation of Hayek’s methodology

Let us now return to Shackle’s criticism of Hayek. As has been mentioned before, Shackle criticized Hayek’s concept of time. According to Shackle’s individualistic decision-making theory, an individual can decide his own behavior by considering the rival choosables. There is neither the necessity nor the possibility for individuals to be guided by rules. Therefore, unlike Hayek, Shackle considers the concept of “social” order to be a doubtful possibility. Shackle’s objection against Hayek is accurately expressed in his remarks:

(T)he concept of equilibrium of a society is definable and claims a central importance in economic theorising because there is a natural tendency for subjective knowledge and opinions of different individuals to converge; can this be accepted as an

ascendant principle of general application?\(^{32}\).

In what way would Hayek respond to Shackle’s criticism? We can suppose that Hayek would have responded saying that individuals do not decide from the rival choosables solely on the basis of their own knowledge. In the entire social order, the individuals can make the appropriate decisions only if they are provided with the rules that contain the accumulated knowledge of a liberal society.

4. Conclusion

In this paper, it has been demonstrated that Hayek’s subjectivism can be appropriately interpreted as inter-subjectivism. This term validates the assumption that media such as law create ties between individuals in a spontaneous order. Such a trial interpretation concerning Hayek’s inter-subjectivism can provide a new perspective on his methodology. In addition, this interpretation suggests a resolution for the split in Hayek studies that was presented at the onset of this paper. Hayek’s inter-subjectivism is evident in his writings of the 1950s and can also be traced in his later works. Thus, we are now in a position to say that his methodology is consistent. Even though the initial stage of his career (in the 1930s and 40s) remains to be investigated, the early Hayek, as economist, can be linked and integrated with the later Hayek, as social philosopher—on the basis of his inter-subjectivism.

There has been extensive study on Hayek. However, an integrated point of view concerning him appears to be lacking in these studies. It is

insufficient to merely point out how the early Hayek differs from the late Hayek (although this consideration is also important). In order to obtain the most comprehensive implications from Hayek, it is necessary to dispense with the approach of dividing his life as a sincere researcher or investigating a contradiction in his thought; an integrated understanding of his works should be attempted, instead. Such a challenge can be taken up by attempting to interpret Hayek's methodology as associated with the core concept of inter-subjectivism.
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