

# Coordination: A Clarification

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Ever since Hayek's 1937 classic, "Economics and Knowledge," Austrians and other sympathetic writers have rightly emphasized study of the coordination properties of an economic system. To this end, they have claimed a distinction between the Hayekian focus on coordination and the neoclassical focus on equilibrium and efficiency. Although genuine and important, this distinction has yet to be satisfactorily explained. The present paper will take one recent attempt by Israel Kirzner (Kirzner 1998) and demonstrate why a neoclassical economist could quite understandably (though incorrectly) disregard the distinction between the two approaches as a mere semantic quibble.<sup>2</sup> The paper will then attempt to mediate the dispute between Kirzner and Daniel Klein on this matter, and finally will recommend a strategy for spreading Hayek's message to the neoclassical community. Along the way, care will be taken to clarify the neoclassical terminology and approach, in order to distinguish them from Hayek's.

## I. Kirzner's Attempt

Kirzner first identifies the problem. Economists have been traditionally concerned with making "good" policy recommendations, and hope to rely on the tools of economic science for guidance. But can there be an objectively valid recommendation, that does not subtly rely upon the subjective value judgments of the scientist? The economist thus seeks an objective criterion by which to judge a set of policies or institutional framework. Kirzner suggests that the concept of "coordination" meets this requirement.

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<sup>2</sup> It should go without saying that Kirzner's essay was picked for its *clarity*, its relative excellence. The point is that *even here* a neoclassical might perceive ambiguity, thus overlooking the important "Austrian" insights of Hayek's original article to which the mainstream has yet to pay adequate attention.

## *Coordination Defined*

Before proceeding, Kirzner offers the following definition:

A fully coordinated state of affairs...is one in which each action taken by each individual in a demarcated set of actions, correctly takes into account (a) the actions in fact being taken by everyone else in the set, and (b) the actions which the others might take were one's own actions to be different. (ibid., p. 136)

The neoclassical (NC) would consider Kirzner's definition to be strikingly similar to the game theoretic definition of (*Nash*) *equilibrium* in a dynamic setting. For the NC, equilibrium requires that every agent possesses the *correct* beliefs concerning every other agent's strategy. An agent's strategy specifies which sequence of actions (out of a commonly known set) he or she will take, with the specific action taken at any given time being a function of the entire *history* of actions (taken by everybody) that have previously occurred.

However, the NC would believe that Kirzner's definition of coordination misses one important component. To achieve equilibrium in a NC model, it is not enough that each agent correctly anticipates the contingent actions of everyone else. It must *also* be the case that each agent—using these correct beliefs—chooses his or her *own* strategy so as to maximize utility. This omission of individual optimization from Kirzner's requirements renders his illustrative example unsatisfactory (from a NC perspective).

An example of what we mean by a state of coordination is presented in the activities of air controllers in charge of flights into and out of a busy airport. It is generally understood that the function of the air controller is to coordinate these flights in order to ensure smooth and safe scheduling of departures and arrivals...Clearly, were two airplanes to collide, we would say that the actions of their respective pilots were not mutually coordinated. (ibid.)

Contrary to Kirzner's contention, the NC would *not* say that a collision is necessarily proof of discoordination. Pilot X could believe, correctly, that Pilot Y will fly at 1,000 feet above the airport at noon, and that Y will do this regardless of X's actions. Pilot Y

could believe, correctly, the exact same of X. Since these beliefs are correct by assumption, we conclude that there will be a collision at noon.

Surprisingly, this tragic situation seems to satisfy a strict interpretation of Kirzner's two criteria. Thus, when Kirzner says an action must "correctly take into account" the actions of others, the word *correctly* must (in order to rule out the collision as a state of coordination) be serving two purposes. First, the expectations of the individual must be accurate. Second, the individual must act upon these expectations *in the proper fashion*, from the point of view of the individual's preferences. The expectations of Pilots X and Y in the scenario above are perfectly accurate. The problem is that (presumably) each prefers life to death, and thus the action of each (though correctly foreseen by the other) is not the best available under the circumstances.

At this point, the NC would believe that the Austrian notion of coordination corresponds to the NC notion of equilibrium. Kirzner's later remarks would quickly render this conclusion premature.

### *Coordination versus Pareto Optimality*

Kirzner recognizes the apparent similarity between his notion of coordination and NC concepts. Rather than contrasting coordination with equilibrium, however, he chooses instead the welfare standard of Pareto efficiency.

A state of full coordinatedness is, of course, Pareto-optimal. If each participant is taking full account of actions (and potential actions) of each other participant, this clearly means that all courses of action which might be preferred by any one participant without hurting anyone else, must already have been successfully pursued. Conversely, if a Pareto-preferred course of action *is* available, this must mean that, to some extent, participants have not taken full account of what others might be prepared to do under all relevant circumstances; Pareto-suboptimality corresponds to imperfect coordination. (ibid. p. 144)

These claims would confuse the NC reader, for equilibrium is neither necessary nor sufficient for Pareto efficiency. Thus, the NC reader would realize that his or her earlier

interpretation of Kirznerian coordination as a verbal analog of equilibrium had been erroneous. At this point, the NC would honestly have no idea what Kirzner *means* by “coordination.”

It will be helpful to review NC terminology. An allocation of goods (in a standard model) or a set of chosen strategies (in a game theoretic treatment) is *Pareto inefficient* if there exists an alternative allocation or set of strategies that (a) is technologically feasible, and (b) is preferred by all agents to the status quo. As mentioned above, this definition is unrelated to the definition of equilibrium.

To see this, consider the Prisoner’s Dilemma. If X confesses while Y remains silent, X goes free and Y receives life imprisonment. If Y confesses while X remains silent, then Y goes free and X receives life imprisonment. If both agents confess, they each receive a sentence of ten years. Finally, if both agents remain silent, they each receive five years.<sup>3</sup>

	Remain Silent	Confess
Remain Silent	2,2	0,3
Confess	3,0	1,1

Of the four possible outcomes, only one is Pareto inefficient—the situation in which both prisoners confess. In this outcome, each prisoner receives ten years. The outcome is Pareto inefficient because there exists another possible outcome that *both* agents prefer; namely, both prisoners could have remained silent, earning a smaller sentence for each.<sup>4</sup>

Unfortunately, this game possesses a *unique* equilibrium—it is precisely the inefficient outcome! In the Prisoner’s Dilemma, *regardless* of an agent’s belief concerning the

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<sup>3</sup> The table above represents these strategic considerations in standard game theoretic form. The first number in each cell corresponds to the payoff of the player choosing the strategy along the left, while the second number gives the payoff to the player choosing from among the top strategies. (Note that the numbers do not directly mirror the years of punishment given in the verbal description of the game.)

strategy of the other player, the agent does best (i.e. maximizes his utility) by confessing. Both agents (if rational) know this, and so each agent correctly forecasts that the other will confess. Thus, each agent correctly anticipates the other's action, and accordingly chooses the individually optimal action. The outcome in which both agents confess constitutes an equilibrium, and apparently satisfies Kirzner's definition of coordination (even adjusting for optimization).<sup>5</sup>

Nonetheless, the outcome is Pareto inefficient. It is true, no individual can *unilaterally* make both agents better off; otherwise the outcome would not be an equilibrium, or a state of coordination. However, if *both* agents were to alter their actions, both could be made better off. The example of the Prisoner's Dilemma thus shows that it is at least theoretically possible that *there does not exist* a set of individually optimal plans that allows for maximum well-being (let alone a decentralized mechanism for guiding people to *discover* such plans).

Aside from this imprecision with neoclassical concepts, there is a more serious flaw in Kirzner's discussion. In attempting to rescue his coordination criterion from the same Austrian methodological objections that (allegedly) render the Pareto criterion nonsensical, Kirzner engages in (what appears to be) mere hairsplitting:

Because the Pareto-criterion is understood to be concerned with aggregate well-being, its serviceability as a yardstick of economic goodness depends on our willingness to accept aggregate well-being—defined in terms of satisfaction of individual preferences—as a relevant moral norm....[U]se of the Pareto-criterion does, somewhere along the line, presume a moral acceptance of the satisfaction of individual preferences as an important element of “goodness.” Use of the coordination criterion involves no such moral commitment at all....[It merely] presumes that those advised by the economist are morally concerned that members of society undertake their actions in a way that does not inevitably spell disappointment and/or regret...(Kirzner 1998, p.145)

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<sup>4</sup> The other three outcomes are efficient; there is no way to make one agent better off without hurting the other. In general, there exist a multitude of efficient outcomes in a NC model. The Pareto criterion cannot tell us which of these is best; it merely tells us that society should not settle for an *inefficient* outcome.

Thus, Kirzner denies the objectivity of the Pareto criterion because it involves a moral endorsement of people's preferences, but he favors use of the coordination criterion because it only entails a moral endorsement of people's plans (which are of course *designed* to satisfy these very preferences).

I believe the above section has demonstrated why an honest neoclassical could read Kirzner's paper and find no compelling reason to abandon his traditional tools.

## II. Klein's Contribution

In an insightful paper (Klein 1997), Daniel Klein identifies two distinct (and often conflated) meanings of *coordination*. Unfortunately, after making this valid and useful distinction, Klein adds to the confusion by incorrectly attributing one meaning (of coordination) entirely to the neoclassicals, while reserving the other meaning for Hayekians. As we shall see, both groups implicitly have *both* meanings in mind, and thus their different viewpoints cannot be blamed upon a mere verbal ambiguity, as Klein seems to believe. In a similar vein, Klein's proposed rehabilitation of Kirzner is also unsatisfactory.

### *Klein's "Two Coordinations"*

To understand the different meanings of the noun *coordination*, it is probably easiest to focus on the different meanings of the verb *coordinate*. As an intransitive verb (i.e. one that does not take a direct object), *to coordinate* means to adjust oneself to other, uncontrollable factors: one *coordinates* with his friend to meet at a certain time. But as a

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<sup>5</sup> The unique equilibrium in the Prisoner's Dilemma also corresponds to Kirzner's definition of Hayekian "coordination II" (Kirzner 1999, p. 190). This underscores that Kirznerian coordination need *not* be Pareto optimal.

transitive verb (which takes a direct object), *to coordinate* means to arrange or assemble things into a pleasing pattern: one *coordinates* the colors in a room.

The same distinction carries over to the noun form. In the first sense, we can say that one achieves coordination with his friend. In the second, we can say that one achieves a pleasing color coordination.<sup>6</sup>

In order to keep the two meanings distinct, Klein proposes “with some apprehension” that the first type (i.e. adjusting one’s actions to mesh with others’) still be referred to as *coordination*, while the second type (i.e. arranging things to form a pleasing pattern) be referred to as *metacoordination* (ibid. p. \_\_\_\_).

With the “two coordinations” in mind, we now turn to the neoclassical treatment of the issue.

### *Klein on Schelling*

As Klein points out, a “coordination problem” means something very particular to the modern neoclassical economist, and is related to the pioneering work of Thomas Schelling. A standard example of such a problem (adopted by Klein) is two motorists deciding on which side of the road to drive. The best outcome is for them both to drive on the right side (because of the placement of the steering wheels, say), the second best outcome is for both to drive on the left, and the worst outcome occurs when they fail to pick the same side (and end up colliding).

	Drive on the Right	Drive on the Left
Drive on the Right	2,2	0,0
Drive on the Left	0,0	1,1

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<sup>6</sup> This entire discussion closely follows Klein.

The above is called a *coordination game* because (loosely) it is in each player's interest for the other to correctly predict his strategy; if one player chooses "Left," he hopes the other realizes this and chooses "Left" as well. Given the above payoff matrix, the two players are best viewed as teammates who must "coordinate" on either (Left, Left) or (Right, Right).

Klein believes that this Schelling coordination corresponds to his (Klein's) first type of coordination (as defined above). In one sense, this is undeniable: the motorists must choose their own actions and hope to coordinate with each other. However, while considering such a game, the typical neoclassical might recommend some intervention in order to *facilitate* this decentralized activity. For example, she might recommend that the government fine people who are caught driving on the left side of the road. In such a case, Klein would say, the government is *metacoordinating* the drivers. It would seem that Klein's two meanings of coordination are *both* used in any discussion of Schelling coordination.

Although Klein's verbal distinction is not helpful in separating the two schools of thought, he *has* raised an important point. Because neoclassical economists already use the term, Austrians must take great care when discussing coordination. The essential difference, it seems to me, is that a "coordination problem" for the neoclassical immediately brings to mind a situation of *multiple equilibria* (of the sort in the above diagram), where the "problem" is to get the agents to pick the most highly (Pareto) ranked from the set. Because the mainstream game theorist typically considers relatively simple games with few players, he does not normally ponder the *Hayekian* coordination problem, which deals with the trouble of reaching equilibrium *at all* (let alone the "best" one).

## *Klein on Hayek*

The most serious drawback to Klein's approach is that it rests on a rather idiosyncratic interpretation of Hayek. While Klein reserves (dubiously, as argued above) his first type of coordination to Schelling, he believes that Hayek used the term *coordination* only in its second sense (i.e. metacoordination):

[W]e may say that, when Hayek, Polanyi, and Coase spoke of coordination in economic systems, the dedicated opponents [of] any conscious effort to arrange society as a whole meant, in fact, *pleasing arrangement*. The arrangement is abstract, and the pleasure is allegorical, but that is what they meant. In the Hayek meaning, the concatenation of affairs in cases like the catallaxy is not actually coordinated by a Great Arranger, but, as Smith's famous metaphor demonstrates, their idea of coordination is clarified by an allegory of the affairs being "led by an invisible hand."

The allegory goes as follows: There is a superior being named Joy who is invisible and who beholds the vast economic order....Her pleasure increases when human society exhibits widespread prosperity, comfort, personal fulfillment, excellence, irony, and affection....In the road game...she prefers the (Right, Right) outcome, and *in that sense* the arrangement of activities at (Right, Right) is *better coordinated* than the arrangement of activities at (Left, Left). In the allegorical sense in which Joy exists within us and acts by mysteriously stirring our doings, Joy coordinates our doings in achieving (Right, Right), the way we coordinate colors in decorating our homes...

Hayek's claim is that the decentralized activity of the free catallaxy generates a dynamic, complex "spontaneous order" which Joy finds more pleasing than the order generated by the centrally-planned economic system. (ibid. p. \_\_\_)

I believe the above to be an oversimplification of Hayek's position. The allegorical Joy does *not* (meta)coordinate us in the same way that "we coordinate colors in decorating our homes," because the colors in our homes are not *acting, planning* agents. It is true, there is a sense in which the impersonal price mechanism—*not* some mystical being "Joy"—(meta)coordinates us, but only by providing information with which we form our own subjective plans and attempt to coordinate our actions with each other. If all Hayek

meant were that the free market generates an order “more pleasing” than any other system could, he wouldn’t have used the term *coordination* at all. We thus see that Klein’s distinction between coordination and metacoordination does not provide a sharp contrast between neoclassical and Austrian viewpoints, since both schools implicitly rely on *both* concepts.<sup>7</sup>

Klein continues with this interpretation of Hayek by going on to say:

When Hayek and Polanyi write of “coordination,” they mean a pleasing arrangement of affairs—pleasing, that is, to Joy. Hayek and Polanyi would say that in the road game...the arrangement (Left, Left), though a coordination equilibrium, shows unsatisfactory coordination. (ibid. p. \_\_\_\_)

I frankly do not believe Hayek had any such possibility in mind when he wrote his seminal papers on knowledge. The occasional normative statements<sup>8</sup> in these papers are all related to the ‘desirability’ of *equilibrium* (as explained below). To rate one equilibrium more pleasing than another (as Klein does in the above quote) would seem to commit the very error about which Hayek explicitly warned—that is, it supposes that one can construct a single set of ends from the diverse ends sought by the actors in the catallaxy.

Perhaps Hayek would agree with Klein; perhaps he wouldn’t.<sup>9</sup> I merely want to reiterate my claim that Hayek had no such scenario (i.e. one with Pareto inefficient equilibria) in mind. To see this, let us take a quote from Hayek that at first glance seems to support the interpretation given by Klein:

We may therefore very well have a position of equilibrium only because some people have no chance of learning about facts which, if they knew them, would induce them to alter their plans....

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<sup>7</sup> Kirzner too objects to Klein’s taxonomy, on the grounds that Hayek at times meant both coordination and metacoordination (Kirzner 1999, p. 199 fn 7).

<sup>8</sup> E.g. after a scarcity of a raw material, people “move in the right direction” (Hayek 1945, p. 87).

<sup>9</sup> Clearly *Kirzner* would say that (Left, Left) was not fully coordinated, since he believes coordination implies Pareto optimality.

While such a position represents in one sense a position of equilibrium, it is clear that it is not an equilibrium in the special sense in which equilibrium is regarded as a sort of optimum position. In order that the results of the combination of individual bits of knowledge should be comparable to the results of direction by an omniscient dictator, further conditions must apparently be introduced [which Hayek describes in a footnote as absence of “frictions”]...One condition would probably be that each of the alternative uses of any sort of resources is known to the owner of some such resources actually used for another purpose and that in this way all the different uses of these resources are connected, either directly or indirectly [to ensure equalization of marginal productivity]. (Hayek 1937, p.53)

By itself, this passage does *not* prove Klein’s claim (nor does it imply agreement between Hayek and Kirzner regarding Pareto optimality and coordination). In the paper containing the above quote, Hayek first redefines *equilibrium* as a situation in which all individual plans are compatible. Now, he acknowledges (in the first paragraph above) that this compatibility of plans might be due to ignorance on the part of some people. Thus what Hayek calls equilibrium might *not* satisfy the conditions of (perfectly competitive) equilibrium as defined in the formal models of that time. These conditions—equality of marginal rates of substitution of consumer goods, equality of marginal productivity of resources, prices equal to marginal costs, etc.—are the ones that (Hayek claims) would hold if an omniscient dictator were to arrange affairs. As the economists of this time were well aware, market outcomes in the real world might fall short of this ideal, because of frictions that were assumed away in the model.

However, this situation is not the same as the (Left, Left) outcome in the road game. This inefficient (Nash) equilibrium is not due to ignorance on anyone’s part; the features of the game are common knowledge to all players. Nor is the inefficient (Left, Left) supported by the “frictions” (such as finite divisibility of goods or distortionary taxes) that concerned the mathematical economists of Hayek’s day. What hinders movement in the “right direction” is that any individual defection from the (Left, Left) outcome would be disastrous. Only if all players change their strategies *together* can (Right, Right) be achieved.

Another example will illustrate the distinction. Besides the road game, a typical example of a neoclassical coordination game is the choice between Beta and VHS standards for videocassettes. We shall omit a payoff matrix, but it is easy to see why this game has the same flavor as the road game: it doesn't matter so much which standard is chosen, so long as everyone picks the same one. Furthermore, let us suppose (as many allege) that everyone would have been better off if Beta had been established, but unfortunately the market is "stuck" at the (Pareto inefficient) VHS equilibrium.

Such a case of "market failure" does *not* correspond to Hayek's first case of a suboptimal equilibrium. In the VHS case, there is no ignorance. Everyone knows perfectly well that it would have been better to settle on the Beta standard. Moreover, the marginal rates of substitution and factor productivity would all be equal (in a suitably designed model). On the *margin* there is no reason for any *individual* to adjust his behavior; that's why the market is (allegedly) "stuck." Only if *everybody* switched (at the same time) over to Beta would the Pareto optimal outcome be reached. Since we cannot hope for individuals to spontaneously make such a transition, many economists feel the government needs to take action.

Hypothetical situations like these—where all plans mesh, everyone is fully informed, there are no external frictions, and yet the omniscient social planner could nonetheless improve on the outcome—simply did not occur to Hayek, at least in his papers on knowledge.<sup>10</sup> In these papers he is clearly concerned, not with whether the market will select the "best" equilibrium, but whether and how the market approaches equilibrium *at all*.

### *Klein on Kirzner*

In addition to (supposedly) distinguishing Schelling from Hayek, Klein believes that his new concept also sheds light on a different controversy:

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<sup>10</sup> Klein points out that Hayek considered "lock-in" in *The Road to Serfdom* (Klein p. \_\_\_\_ fn 5).

A second topic in which the distinction between coordination and metacoordination may be helpful is the debate within Austrian economics over whether entrepreneurial discovery of opportunity is “coordinating.” Israel Kirzner insists that it is, while others disagree. Since coordination is commonly taken to mean Schelling coordination, the entrepreneur’s “creative destruction” may not seem to be particularly coordinating. When we think of the discovery of the chain-store concept, and its devastating consequences on mom-and-pop stores, or of entrepreneurs [in the road game] effecting a shift from (Left, Left) to (Right, Right), we see the disruption of established patterns of activity and a *prima facie* discoordination. But if we interpret Kirzner to mean that entrepreneurial discovery, while not necessarily coordinating, is, in general, metacoordinating, then his theory makes good sense. (Klein p. \_\_\_)

In the first place, even if Klein were correct, Kirzner would consider this remedy worse than the disease. Kirzner makes it clear that he does *not* wish to promote the free market on the grounds that it is “more pleasing” than some alternative system, since such a claim relies on subjective value judgments. No, Kirzner wants to say that entrepreneurship is truly coordinating in that it promotes greater plan compatibility.<sup>11</sup>

Can such a claim be justified?<sup>12</sup> Certainly not, if it is taken to mean that entrepreneurial discovery always leads to a greater fulfillment of everyone’s expectations; Schumpeterian creative destruction rules out this strong form of the claim. But what if we look at the matter from a longer-run perspective? To take Klein’s own example: Yes, moving from (Left, Left) to (Right, Right) involves an initial discoordination. However, the final resting point is just as coordinated as the original, and all along it was individual acts of entrepreneurship on the part of the *drivers* (i.e. not just the actions of a few great innovators) that brought about the new equilibrium.

Generalizing, one could argue that entrepreneurship sometimes causes endogenous discoordination, but that entrepreneurship always acts to eliminate whatever disruption it has sown. At the same time, all *exogeneous* forces that disrupt equilibrium are also

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<sup>11</sup> This line of argument forms the basis of Kirzner’s paper (1998), discussed in the first section.

counterattacked by entrepreneurship. On net, therefore, Kirzner seems perfectly justified in claiming that discovery promotes coordination.

### III. Hayek's Insight

The first section of this paper demonstrated that Israel Kirzner's attempt to relate Hayek's message to the mainstream was hindered by ambiguity and imprecise use of neoclassical terminology. The second section showed that Daniel Klein, while familiar with both Austrian and neoclassical work, focuses on a largely incidental distinction, and thereby distracts from the real dispute between the two camps. At the risk of sounding frivolous, I might summarize by saying that Kirzner captures the spirit but not the letter of Hayek's insight, while Klein misses the forest for the trees.

My thesis is that the mainstream has yet to appreciate the work of Hayek in general, and specifically (for this paper) his work on coordination. This lack of appreciation is largely due, in my opinion, to the neoclassical reliance on equilibrium analysis. For this reason, I believe present Austrians should follow the example of Hayek himself,<sup>13</sup> who did not dispute the results of formal economics *per se* but rather questioned their relevance. In "Economics and Knowledge," Hayek wonders "to what extent formal economic analysis conveys any knowledge about what happens in the real world" (p. 33). He goes on to say:

[M]y main contention will be that the tautologies, of which formal equilibrium analysis in economics essentially consists, can be turned into propositions which tell us anything about causation in the real world only in so far as we are able to fill those formal propositions with definite statements about how knowledge is acquired and communicated. (ibid.)

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<sup>12</sup> Kirzner's own justification proceeds differently from the argument I give above, and is unsatisfactory because of his ambiguous definition of "coordination" (Kirzner 1998, pp. 142-143).

<sup>13</sup> Of course, this "recommendation" is not meant to imply that present Austrians are in any way deviating from Hayek.

To the “market failure” theorist, who proposes government interventions to remedy alleged shortcomings in decentralized outcomes, we can offer Hayek’s observation that “before we can explain why people commit mistakes, we must first explain why they should ever be right” (ibid. p. 34).

Hayek believes that the only justification for equilibrium analysis is “the supposed existence of a tendency toward equilibrium” (ibid. p. 44). In light of his discussion of expectations and plan coordination, Hayek spells out what such a tendency implies:

[T]he knowledge and intentions of the different members of society are supposed to come more and more into agreement....In this form the assertion of the existence of a tendency toward equilibrium is clearly an empirical proposition...which ought, at least in principle, to be capable of verification. (ibid. p. 45)

Such considerations should resonate even with the staunchest positivist economist. Mainstream economists might nonetheless downplay the importance of such practical questions. If so, they would do well to consider Hayek’s charge that the “usual presentations of equilibrium analysis” are flawed because “these apparent demonstrations amount to no more than the apparent proof of what is already assumed” (ibid. p. 45).

The mainstream economist is not a fool; he knows perfectly well (and indeed can precisely state) the premises on which his models are based. Even so, preoccupation with ever more complicated possibilities (such as the ones discussed earlier)—possibilities which cast doubt upon the desirability of a free market—often leads even the brightest economists to forget how crucially such results depend on these (admittedly) unrealistic assumptions. The point is at once trivial and significant; I can do no better than to reproduce Hayek’s own concluding thoughts:

[Economists] have so mixed up the two sorts of propositions, the a priori and the empirical...that it is frequently quite impossible to see what sort of validity they claimed for a particular statement. More recent work has been free from this fault—but only at the price of leaving more and more obscure what sort of relevance their arguments had to the phenomena of the real world. All I have tried to do is find the way back to the

common-sense meaning of our analysis, of which, I am afraid, we are likely to lose sight as our analysis becomes more elaborate. You may even feel that most of what I have said has been commonplace. But from time to time it is probably necessary to detach one's self from the technicalities of the argument and to ask quite naïvely what it is all about. (ibid. p. 56)

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