A revision of Hayek's view on holistic concepts

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Introduction

Austrian economists are critical both of classical economics, and Keynesian economics or modern macroeconomics in general, but their attitude towards traditional economics is considerably milder. Austrians object macroeconomics on theoretical and philosophical basis. Although both kinds of considerations are related I will focus my analysis on their epistemological and methodological criticism, and particularly on their rejection of aggregate concepts. It will be held that full commitment to methodological individualism and subjectivism constrain the Austrians to allow aggregate concepts both at the theoretical and practical levels. Particularly, since macroeconomics do influence economic decisions and is constitutive of relevant economic facts the current objections against incorporating them to the explanation of individual decisions and the economic processes are no longer valid. This broader view about the relevant concepts of economic analysis may have some consequences for the issue of inter-temporal coordination.

1. Classical concepts vs. Macroeconomic concepts. The Austrian view.

Austrian economists have mixed feelings regarding classical economics. On the one hand, they see continuity between the main views of the early Scottish and British economists and their own ideas about the workings of the market. As Mises emphasizes "a straight line leads from the system of classical economists to the subjectivist economics of the present. The latter is erected not on the ruins, but on the foundations, of the classical system" (Mises, 2003, p. 175). On the other hand, they have pointed out that huge differences separate "the objectivist" school of Smith and Ricardo from the subjectivist and marginalist approach of "modern" (i.e., Austrian) economics, which was claimed to represent "nothing less than a Copernican revolution in social sciences" Mises, 2003, p. 163)[1]. A similar stance adopted towards traditional economics, combining kudos and complaints, is also found in connection to classical categories. According to von Mises, classical economic concepts were appropriate for economic analysis but they had two undesirable features:

a) They were *universal*
b) They pretended to be *objective*

The meaning of *universalism* as a predicate of concepts or categories is rather ambiguous in Mises' writings, but there are two main different senses in which the term is used. The first points out to *semantic* characteristics of the concepts: they are deemed *universal* when they are excessively wide in scope and a more careful discrimination is needed for performing a significant economic analysis[2]. Two special cases of this approach are worth considering. Some concepts that are universal in this semantic sense involve so much abstraction that nothing significant or informative is left as part of their content. In this case the complaint is not that they are excessively wide, but rather that they have lost any empirical content[3]. On the other hand it seems that certain concepts that are labeled as universals are objected to because of one undesirable feature associated to them: they imply a strong (and unjustifiable) ontological commitment: the existence of supra-individual entities.

"Only the disintegration of the universalistic mentality brought about by the methodological individualism of the seventeenth and eighteenth centuries cleared the way for the development of a scientific catallactics. It was seen that on the market it is not mankind, the state, or the corporative unit that acts, but individual men and groups of men, and that *their* valuations and *their* actions are decisive, not those of abstract collectivities" (Mises, 2003, p. 162).

I will call those categories that refer to "abstract collectivities" *holistic concepts*.

Secondly, in some other cases, universalism seems to involve a *pragmatic* dimension and refer to a certain attitude that according to classical economics people have in choice-settings regarding general concepts. Classical *total utility*, for instance, may be labeled as universal because when using such a concept economists overlook the crucial fact that what individuals consider in making economic decisions is not whether to consume (produce, supply or demand) or not, but whether to consume (produce, supply or demand) one additional unit of some good or not. Most economic decisions are of this type[4]. The classical view on this matter is wrong to the extent that it entirely overlooks the marginalist approach.

From the Austrian point of view, classical concepts have a second main problem: they were considered *measurable in an objective way*, something that Austrians find impossible. Menger's criticism of the objective notion of value is well known[5]. Also appealing is the Austrian argument that costs cannot be objectively measured because they include opportunity costs which crucially depend on individual (subjective) plans[6]. Austrians thought that economics is concerned with meanings and subjective valuations, and that there is no objective method for measuring such a things.

The *objective* and *universal* nature of classical economic concepts turned out to be inconvenient for theoretical purposes and, ultimately, led to paradoxes. Classical economic concepts are criticized by the Austrians on pragmatic and semantic considerations: they fail to incorporate a marginalist approach and, in some occasions, their level of disaggregation ought to be improved[7]. However, classical concepts are not charged with being void concepts, even when they are considered just "mental tools", and certainly they are not holistic concepts. Particularly, they do not entail a violation of methodological individualism: classical *total* utility, for instance, is predicated of single individuals, not of groups or the whole society. For these last reasons the Austrians judged that the disadvantages of traditional economic concepts are not definitive, and could be removed. It is not necessary to replace classical concepts by new ones. What is needed is a more disaggregate, marginalist and subjectivist approach to the old concepts[8].

In contrast, the Austrian appraisal of Keynes' macroeconomics and, particularly, of macroeconomic concepts, is extremely harsh. His criticism seems to be a combined reaction against two different aspects of Keynes's proposal: its particular *content* and its (macro) *level of analysis*. The first objection is *theoretical* and may be developed within the realm of macroeconomics: It is also grounded in macroeconomic analysis[9]. The second one is rather *methodological* and *epistemological*, and is mainly carried out as a criticism of aggregation *per se*.

Both critical views are very different indeed. The *theoretical* claim points out that for certain purposes too much aggregation of a particular factor leads to a mistaken view of economic processes and should be avoided. From a theoretical point of view, both classical economics and modern macroeconomics can be charged with excessive generalization.

The Austrian's *methodological* objection goes far beyond the theoretical criticism and rejects the use of aggregate concepts *per se*. It is claimed now that something is intrinsically wrong with aggregate concepts. This is an attempt to ground their criticism of Keynes' vision of the market on a more deeper level: i.e., on epistemological and methodological arguments. Though the Austrians thought classical concepts could be used provided they were divested of their universal and objectivist content, macroeconomic concepts, instead, could not be repaired and should be rejected. A brief way to describe this difference is to say that classical concepts are *aggregate* concepts but macroeconomic concepts are *holistic* concepts. The fist ones may be used provided appropriate corrections are introduced but the second ones have no place in economics or social sciences.

I will advance no objections here against the Austrian theoretical stance towards macroeconomics. In what follows I will focus on the Austrian methodological rejection of aggregation and I will argue that it is unwarranted. If I am right, to dismantle the Austrians' methodological objections against aggregate concepts could pave the way for a more unprejudiced attitude towards macroeconomics and for the beginning of a cross-fertilization process between both traditions.

2. What is wrong with aggregate concepts?

Aggregate concepts may form part of two different sort of considerations: that of the observers, called here *theoretical* considerations, or that of the agents, which will be referred to as *practical* considerations. One of the reasons for the Austrians' rejection of aggregate concepts for the achievement of *theoretical* purposes is their belief that their use implies Methodological Holism, which they find unacceptable. This is another way of saying that macroeconomic *aggregate* concepts *are holistic* concepts. Methodological Holism is an ontological and methodological doctrine about the referents of aggregate-concepts and their role in the explanations of social phenomena. In an standard version it assumes two strong thesis:

a) some aggregate concepts, such as "proletariat" or "aggregate investment", refer to some sort of supra-individual entities which exist on their own along with individuals and in some cases they act and take decisions by themselves;
b) aggregate concepts have a sort of causal power and there are causal connections among them which help to explain social phenomena.

If the use of aggregate concepts for theoretical purposes implied the items (a) and (b), the Austrians refusal to incorporate them in theoretical constructions would be consistent with their position. Such an argument, however, would be unjustified. One may reject this particular interpretation of aggregate concepts and retain the concepts themselves. This is precisely what makes an Austrian macroeconomics possible. As Garrison has pointed out, macroeconomic thinking was not alien to the Austrian tradition (and it may be also found in classical economics). He himself makes explicit use of aggregation at the *theoretical* level when developing the basis of Austrian macroeconomics. But in this case aggregate variables are divested of any commitment to the existence of autonomous supra-individual entities. In developing macroeconomics the Austrians are only concerned with the problem of how much aggregation is advisable for a well defined particular problem.

In fact, Austrian macroeconomics does not treat any aggregate category in the same manner. Typically, capital is disaggregated but the interest rate is considered at the level of the whole society. Why, I wonder, is it necessary to disaggregate capital, but not to do the same with the interest rate provided that there exist a family of interest rates? This uneven treatment may be explained in terms of purposes and tractability. The central goal of Austrian macroeconomics is to show that aggregate consumption and aggregate investment cannot move in the same direction. To support this claim a disaggregate concept of capital is crucial. But to develop this argument considering many different interest rates would cause too many unnecessary complications and few (if any) theoretical benefits. It is evident that no methodological principle requires the Austrians to treat all concepts in a disaggregated way. Their decisions in each particular case are taken on *pragmatic* and *theoretical* considerations. More specifically, they depend on the purposes aimed at by using the theory and the means needed to achieve them. Ultimately, Austrian macroeconomics is free to choose the level of aggregation of the key concepts it uses.

Let's move now to a second problem. Can aggregate concepts be part of *practical* considerations? I mean, might economic *agents* take aggregate concepts into account when making economic decisions? In my view, to be consistent with both their theoretical developments and their philosophical position, the Austrians should give a positive answer to these questions.

Beginning with Austrian theory, its notion of a decline in *social* time preferences, for instance, is an aggregate notion which supposedly is carefully considered by individual entrepreneurs. One thing is to get the information that the consumption of our own *particular* product is declining and quite another is to believe that what is going down is the consumption of all (or at least most) products. So, when the Austrians refer to entrepreneurial awareness of a change in time preferences they are admitting that individuals pay attention to the behavior of aggregate variables: supposedly, it is the decline of aggregate consumption what they observe.

On the philosophical level, their commitment to methodological *individualism* constrains them to accept that any proper explanation of economic phenomena should be traced back to individual decisions. Only individuals decide and act: "on the market it is not mankind, the state, or the corporative unit that acts, but individual men and groups of men …. *their* actions are decisive, not those of abstract collectivities" (Mises, 2003, p. 162; his italics). Besides, "one may say that a social collective comes into being through the actions of individuals (…) definite actions of individuals constitute the collective" (Mises, 1996, p. 43).

It should be noted however that methodological individualism by itself does not specify what particular kind of "causes" determines individual decisions and actions. To fill this gap in methodology *subjectivism* must be added. As was pointed out, "the Austrian have argued … that market phenomena must be analyzed within a theoretical framework constructed from the *knowledge, intentions and expectations* of the actors themselves. This notion of constructing economic theory from the actor's point of view is what they mean by methodological *subjectivism*" (Ebeling, 1997, p. XV; my italics).

Subjectivism makes clear that the causes of decisions are not physical events but mental states (ideas). But it sets no restrictions on the particular kind of ideas that are influential in people's decisions. In this sense methodological subjetivism allows for an *unrestricted pluralism* about the non physical causes of action: in principle *any* idea may be influential in individual decisions.

Considering all this, a full account of subjectivism should include the following items:

1) social concepts are conceived as divested of any physical content;
2) social concepts cannot be measured objectively;
3) There is no link between the external (material) stimulus and people's reactions to them;
4) There is no limit to the kind of mental states that can influence people's actions.

The first two claims are well known elements of the Austrian's view of the subjective nature of social concepts and are closely related. According to the Austrians economic concepts are *social* or, as Hayek called them, *teleological* concepts[10]. Item (3) is the bedrock of methodological dualism and item (4) incorporates the pluralist claim that no restrictions on the kind of ideas that may cause particular decisions should we allowed. This extraordinary diversity of the (mental) sources of human behavior is an essential part of what is meant by subjectivism[11]. Full commitment to Methodological Individualism and Subjectivism does not rule out aggregate concepts from the decision-making process.

I conclude that the Austrian approach to social sciences leaves room for the use of aggregate concepts both in *theoretical* as well as in *practical* considerations. However, Hayek has advanced what seems to be a strong argument that can be used against the role of aggregate concepts in the decision making process[12]. In the next section we turn out our attention to his reasons.

4. Hayek's argument against the use of aggregate concepts in practical considerations has no support on the Austrians subjectivist stance and could be inconsistent with it.

In *The Counter Revolution of Science* Hayek distinguished between *constitutive* concepts, which refer to the factors that individuals do take into account in making decisions, and *speculative* concepts, which people use to reach a picture of society or some of their institutions[13]. He asserted that "the real contrast is between ideas which by being held by the people become the causes of a social phenomenon and the ideas which people form about that phenomenon" (Hayek, 1979, p. 62-63). Is it possible to say something definite about the particular content of the first class of concepts? Probably the clue may be found in *The Use of Knowledge in Society*, where Hayek defended the idea that during the process of taking economic decisions, decision-makers consider only a restricted set of factors which provides them with information concerning their *particular* conditions of production. This is the only *relevant* knowledge they need for deciding, which is captured by traditional economic concepts and spread among the individual producers through the market mechanism. It seems that by constitutive knowledge Hayek is thinking mainly is this fragmented and scattered information about the individual environment and the particular conditions of production or investment. *Speculative* concepts, instead, are the vehicle of ideas that could be used for theoretical purposes but are not influential on individual decisions. They are not "causes" of people's actions and consequently they are not needed for explaining them[14].

If it were true that agents had the very limited and fragmented vision that Hayek attributes to them, they would certainly pay no attention to aggregate variables when making production or investment decisions. For instance, they will notice a change in their individual demand curves, but not a change in the aggregate demand curve as a whole. Within this picture the key categories of (traditional) economic theory would be constitutive, while aggregate concepts should be classified as speculative concepts. But as I argued above this claim has no support on the Austrian view: neither methodological individualism nor methodological subjectivism could be invoked in its defense. To reach the intended result an independent argument in favor of the thesis that macroeconomic concepts may only be used in a speculative way (i.e., they cannot take part on the decision-making process and play no role on the constitution of social facts) must be available.

In my view he did not provide empirical or theoretical grounds for this claim. On the empirical side, no reliable evidence can be offered in support of his thesis. On the theoretical side, Hayek's distinction between constitutive and speculative concepts is sound as long as it is understood as pointing out to two different *functions* that concepts may perform. However, he means something stronger. His dichotomy is about "ideas" not about "functions" that an idea may perform. In my view one possible reason for adopting this strong interpretation was to exclude macroeconomics from individual deliberations. To succeed in this attempt Hayek had to posit an *intrinsic* difference among the categories involved: he was forced to assume that agents *do not and can not* use speculative concepts when forming their expectations and deciding. Now the two kinds of concepts are supposed to be completely *different in nature*. The *functional* distinction is transformed into an *intrinsic* distinction.

Speculative concepts are considered by Hayek in an unacceptable narrow manner, as if their "essence" allowed them to perform an active role only when people think about society. This is a prohibited move within the subjectivist's frame because it violates item (4) mentioned above stating that any type of beliefs and preferences can trigger people action. As Hayek himself has pointed out, although it is possible that "god" or "Holy Trinity" merely conform what he called "popular theories", beliefs associated with them *do influence* a good portion of people's behavior. In fact, many actions would be completely unintelligible to us if these beliefs were not taken into consideration[15]. Analogously, even if "the velocity of circulation of money" or the "average price level" are just artificial constructions (as the Austrians assert), if people think they will change and these changes will have some definite effects on their revenues, they will pay close attention to these factors, and their actions will be deeply influenced by them. Notice that subjectivism is also applicable to agents that eventually hold holistic ideas. In fact agents *may* believe that aggregate concepts stand by themselves and are (or may be) causal agencies, and *may* believe that among them there are some connections of the type posited by macroeconomics. If they *hold* these beliefs, the corresponding concepts may have a huge economic significance.

5. Positive Reasons supporting the thesis that aggregate concepts and Non-Austrian Macroeconomics do play a role in individual decisions

Understood as a functional distinction, Hayeks' conceptual dichotomy seems to be the (casual) result of an empirical observation about the way people make decisions, which is provisional by nature. Ultimately, what restricted group of variables agents take into account when deciding is an open issue that has to be determined collecting appropriate information. Besides, even if his main thesis was valid at the time it was proposed, its validity may be restricted to some particular situations that might have changed completely. Given that a significant amount of relevant evidence about how economic agents make decisions is unavailable, I will give some reasons supporting the *feasibility* that collective concepts and Keynesian Macroeconomics *do play* a role during the process of decision-making.

First. Consider aggregate Consumption and Income. According to Hayek's distinction these are speculative concepts and could be used at the theoretical level (as Garrison does). They cannot be constitutive, because as Hayek said individuals do not care about their present or future evolution, but restrict their attention to the particular circumstances that surround their individual business (for example, the consumption demand for their own products). But suppose now that individuals are persuaded by Keynesian economics and believe that Consumption and Income can move in the *same* direction and that the behavior of one of these variables reinforces the behavior of the other. Then if statistic projections tell them that Consumption is going to decrease smoothly during the next couple of years, they can infer that the same is going to happen with Income. Since they are not Austrians, they do not think that people are consuming less now with the intention of consuming more in the future. Consequently, they expect an indefinite (maybe long) period of decreasing consumption which will probably affect their own products. Believing all that, they will prefer to remain liquid. The Keynesian hypothesis about the way aggregate concepts are connected to each other may "constitute" liquidity at the aggregate level. Even if agents were wrong, as Austrians think, their behavior will contribute to this unintended result and should be explained using *their own* knowledge.

Second. The Austrians admit that knowledge of (i.e., beliefs about) the present or future values of aggregate variables do form part of the *authorities*' decision-making process. Before the beginning of the Second World War a huge amount of money was invested in the creation of institutions dedicated to measuring macroeconomic variables. Supposedly this information would be useful for governmental policies. Mises ridiculed those projects, and Hayek argued against them in *The Pretension of Knowledge*. But even conceding that the resulting measures are just arbitrary numbers, if authorities take them into account for policy guidance and adopt decisions based on them, why should agents disregard this information? The mere fact that authorities react to changes in these magnitudes give agents an incentive for getting information about these changes. If economic policies were decided on the basis of a mysterious ancient manuscript, any clever entrepreneur would be eager to get this information. Practical men profit from any clue that allows them to anticipate future states of the market, no matter whether they are unwarranted, even foolish, "popular" theories.

Third. In *The Use of Knowledge in Society*, Hayek argued that what matters when explaining individual decisions is *particular*, not scientific, knowledge. This is an important argument against state interventionism, and it was advanced with this purpose in mind. It was also grounded in the economic environment that prevailed in a relatively distant past when the knowledge embodied in family-driven enterprises (practical knowledge) was different and often opposed to the knowledge only available to those who mastered economic theory (scientific knowledge). It was also appropriate for an age in which aggregate variables couldn't be measured and no macro theory existed. Nowadays, instead, the situation has changed, at least regarding three important features.

a) Some macro-variables can be measured. For instance, there are standard methods for estimating changes in aggregate consumption or investment;
b) A well developed macroeconomic theory exists;
c) Agents know both macroeconomics and the estimated values of its main concepts, and take this information into account when making economic decisions.

The crucial point is (c). The relevant agents of modern economies do not resemble the unsophisticated entrepreneur of the past centuries. Modern (mega) firms are driven by professional economists or managers who have received strong macroeconomic training and approach markets and real economies in terms of aggregate variables.
Nowadays there is no ground for denying to macroeconomics and its aggregate concepts a place in economic decisions.

5. Should economic theory incorporate the very factors that do influence individual decisions?

Assuming that the above considerations are right, shouldn't economic theory incorporate those very factors that do influence individual decisions? I think this is an important question and the Austrians, who assume an explicit compromise with realism, historical change and the understanding of economic processes, should consider it seriously. As long as macroeconomics and its aggregate concepts are part of an agent's deliberations they help to "constitute" economic facts and might have a place in economic analysis. Some developments in actual decision theory have taken this approach. Traditional decision theory assumed description invariance, which means that different but equivalent descriptions of the same choice setting are irrelevant for explaining and predicting risky choices. But *Prospect Theory* incorporated the idea that choices are framed according to a reference point after discovering that in some well documented occasions agents make choices not among the available options but among their different descriptions. Interestingly, the psychological mechanisms that explain the occurrence of framing effects are constitutive in Hayek's sense: they constitute the observed patterns of choices. And this is the reason why Behavioral Economics incorporates them. Following this line of reasoning, if aggregate factors triggered decisions that are identified as constitutive of systematic patterns of behavior that are relevant for economics, shouldn't they also be included in economic theory? What categories or resources must be incorporated into a theory intended to explain people's economic actions and the facts constituted by them cannot be decided without empirical investigation.

6. The prospects of inter-temporal coordination

In spite of what has been said, we must concede that, in some cases, aggregate variables might play no significant role in shaping economic decisions. For instance, it is very plausible that in deciding how much to consume or save, knowledge of the changes in global income or the quantity of money existing in the whole economy may have no influence at all. It is more reasonable to think that agents decide such issues taking into account some of the traditional microeconomic variables. A disaggregated analysis of the agents' decisions could show that entrepreneurs and other types of agents consider different variables in shaping their expectations. What is relevant for one group may be irrelevant for another. Probably, macroeconomic variables are far more useful in helping to explain investment decisions than in explaining consumer actions. As said before, this is an issue that should be solved by getting empirical evidence.

To the extent that some entrepreneurial decisions may be based on data which are not the result of consumer decisions, and do not reflect their intentions regarding present and future consumption expenditure, inter-temporal coordination might fail. It is possible that decisions taken by both groups of agents proceed in different (maybe opposite) directions, because each group would be basing their decisions in an at least partially different set of data. Lags in coordination may become deeper and coordination no longer secured. If true, this vision jeopardizes the most precious jewel of Austrian economics: the sovereignty of the consumers. The data on which entrepreneurial decisions are based may not reflect consumers' dictates.

Conclusion

If Austrians are committed to a theory that incorporates Methodological Individualism and Subjectivism, and intends to give an account of real economic processes and an explanation of individual actions that constitute economic facts, they can not leave out of consideration aggregate concepts and the way in which agents use them. A more open and unprejudiced mindset could be necessary. One may envision an extension of the message of *The use of Knowledge in Society*, in which *macro*economic knowledge could play a role in entrepreneurial decisions. Such an extension could consider that particular as well as general (aggregate) knowledge is currently available to individual agents, and both should be incorporated in Austrian accounts of economic processes.

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[1] In Bohm Bawerk (1891) there is a similar statement.

[2] He claimed, for instance, that "the theory of wages did overlook the fact that labor too is of different quality and intensity and that on the market there is never a supply of or a demand for 'labor' as such, but only a supply of and a demand for labor of a definite kind" (Mises, 2003, p. 17).

[3] "The 'average period of production' is an empty concept" (Mises, 1996, p. 486). See also his criticism of "real capital" in Human Action, XV, 2, where he said that "this concept of a totality of the produced factors of production is an empty concept" (ibid, p. 263).

[4] Mises criticized "the old manner of reasoning which doomed to failure the work of older economists. In those early days philosophers dealt in their speculations with universal concepts, such as mankind and other generic notions. They asked: What is the value of gold or of iron, that is: value in general, for all times and for all people, and again gold or iron in general, all the gold or iron available or even not yet mined. They could not succeed in this way; they discovered only alleged antinomies which were insoluble for them. All the successful achievements of modern economic theory have to be ascribed to the fact that we have learned to proceed in a different way. We realize that individuals acting in the market are never presented with the choice between all the gold existing and all the iron existing. They do not have to decide whether gold or iron is more useful for mankind as a whole, but they have to choose between two limited quantities both of which they can not have together" (Mises, 1997, pp. 507-508)

[5] See Menger, 1994, chapter III.

[6] "cost of land (and other inputs) as it influences entrepreneurial decision (choice) is inherently subjective. It explains why Jones may be observed to plant corn and Smith soybeans even though a conventional enterprise budget of costs and returns might show the same cost for each producer. Such budgets typically assume that yields and prices are given. In reality, of course, the entrepreneur must estimate both yields and prices. Production decisions are based on opportunity costs which exist only in the mind of the decision-maker. *Since choice is among thoughts or things imagined, there is no way for an outside observer to determine these subjective evaluations*" (Pasour, 1997, p. 284; my italics).

[7] This does not mean that classical economics are always constructed assuming an abusive level of abstraction (universality). In some occasions it has proceeded in the right way. "Conceivably it would be possible to formulate the theory of the appraisement and factors of production … in the broadest generality so that, for one thing, we would work only with an unqualified concept, viz., means of production. We could then elaborate the theory in such a way that the three factors of production that are enumerated in the customary presentation would appear as special cases. But we proceed differently. We do not bother to furnish a universal imputation theory of the means of production as such, but proceed immediately to the treatment of the three categories of means of production: land, labor, and capital" (Mises, 2003, pp. 16-17).

[8] "The Austrian economists have also had significant diversity within their common viewpoint ….. but within this diversity has run and continues to run a common thread of emphasis on man as an intentional, creative being, an actor rather than a mere passive responder to given constraints and circumstances. The Austrian tradition has, therefore, always extended subjectivism beyond tastes and preferences to perspective, perception, and purposes, which are the ultimate engines of all social activity" (Ebeling, 1997, p. 44)

[9] See Garrison 2005.

[10] Hayek, 1972.

[11] Incidentally, the full acceptance of subjectivism underpins Keynes recognition of radical uncertainty: to know that the interest rate has gone down during the whole past period t0 – t1, leave people free to imagine how it is to behave during the next period. No response can be discriminated and called irrational (neither in advance nor a posteriori).

[12] An anonymous referee has objected my analysis of Hayek's distinction among constitutive and speculative concepts arguing that the Austrian distrust of aggregates "is due to the simple fact that they have an alternative theory of the cycle". My reply is that one thing is to have an alternative theory and quite another to have *epistemological reasons* in its favor. I claim that emphasizing the conceptual distinction between constitutive and speculative concepts Hayek looked for these reasons. And it seems to me that it is important

to make an assessment of them because I don't know of better Austrian's reasons than his. Besides, it is wrong to say that the existence of an alternative theory of the cycle provides the basis for the Austrian's distrust about aggregates: as it is shown in this paper some modern version of Austrian capital theory includes aggregate concepts! Austrian's subjectivist economic vision and the use of aggregate concepts are fully compatible one with the other after all. This is precisely one of the main points of my paper and one of the basis for reclaiming more tolerance in the Austrian camp.

[13] "…in the social sciences it is necessary to draw a distinction between those ideas which are *constitutive* of the phenomena we want to explain and the ideas which either we ourselves or the very people whose actions we have to explain may have formed *about* these phenomena and which are not the cause of, but theories about, the social structures" (Hayek, 1979, p. 62; his italics). A few pages later he labeled as "speculative or explanatory" those non constitutive ideas or concepts.

[14] An analogous distinction is posed by Mises. "It is important to realize that the period of production as well as the duration of serviceableness are … not concepts constructed by philosophers, economists, and historians as mental tools for their interpretation of events. They are essential elements present in every act of reasoning that precedes and directs action"…. "The period of production and the duration of serviceableness are for him categories in planning future action, not concepts of academic retrospection and historical research" (Mises, Human Action, op. cit., p. 477)

[15] "What is relevant in the study of society is not whether these laws of nature are true in any objective sense, but solely whether they are believed and acted upon by the people. If the current 'scientific' knowledge of the society which we study included the belief that the soil will bear not fruit till certain rites or incantations are performed, this would be quite as important for us as any law of nature which we now believe to be correct. And all the 'physical laws of production' which we meet, for example, in economics, are not physical laws in the sense of the physical sciences, but people's beliefs about what they can do" (Hayek, The Counter-Revolution of Science, Liberty Fund, pp. 51-52).