INFORMATION TO USERS

This reproduction was made from a copy of a document sent to us for microfilming. While the most advanced technology has been used to photograph and reproduce this document, the quality of the reproduction is heavily dependent upon the quality of the material submitted.

The following explanation of techniques is provided to help clarify markings or notations which may appear on this reproduction.

1. The sign or “target” for pages apparently lacking from the document photographed is “Missing Page(s)”. If it was possible to obtain the missing page(s) or section, they are spliced into the film along with adjacent pages. This may have necessitated cutting through an image and duplicating adjacent pages to assure complete continuity.

2. When an image on the film is obliterated with a round black mark, it is an indication of either blurred copy because of movement during exposure, duplicate copy, or copyrighted materials that should not have been filmed. For blurred pages, a good image of the page can be found in the adjacent frame. If copyrighted materials were deleted, a target note will appear listing the pages in the adjacent frame.

3. When a map, drawing or chart, etc., is part of the material being photographed, a definite method of “sectioning” the material has been followed. It is customary to begin filming at the upper left hand corner of a large sheet and to continue from left to right in equal sections with small overlaps. If necessary, sectioning is continued again—beginning below the first row and continuing on until complete.

4. For illustrations that cannot be satisfactorily reproduced by xerographic means, photographic prints can be purchased at additional cost and inserted into your xerographic copy. These prints are available upon request from the Dissertations Customer Services Department.

5. Some pages in any document may have indistinct print. In all cases the best available copy has been filmed.
Connin, Lawrence Jay

METHODOLOGICAL LIBERALISM: THE THOUGHT OF F. A. HAYEK

The Ohio State University

University Microfilms International 300 N. Zeeb Road, Ann Arbor, Mi 48106
METHODOLOGICAL LIBERALISM:
THE THOUGHT OF F. A. HAYEK

DISSERTATION

Presented in Partial Fulfillment of the Requirement for
the Degree doctor of Philosophy in the Graduate
School of The Ohio State University

By
Lawrence Jay Connin, B.E., M.A.

*****

The Ohio State University
1985

Reading Committee:
John R. Champlin
James Farr
John Dryzek

Approved By

[Signature]
Adviser
Department of Political Science
ACKNOWLEDGEMENTS

I would like to thank Professors Champlin, Farr, and Dryzek for their help and encouragement with this project. In addition, I wish to acknowledge the help and the encouragement of the following friends and associates: Frank and Virginia Lenz, Dave Sadowski, Dr. Steve Wise, Dr. Patrick Shields, Dr. Craig Rimmerman, Marye Shin, Dave and Norma White, Linda Nanez and especially Mary Jo Borden and Elsie Connin.
VITA

December 18, 1952 . . . . . . . . . . . . . . . Born - Toledo, Ohio
1974 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . B.E., University of Toledo, Toledo, Ohio
1977 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . M.A., University of Toledo, Toledo, Ohio
1977-1982 . . . . . . . . . . . . . . . . . . . . . . . . . . Teaching Associate, Department of Political Science, The Ohio State University, Columbus, Ohio
1982 . . . . . . . . . . . . . . . . . . . . . . . . . . Adjunct Instructor in Political Science, College of Wooster, Wooster, Ohio

PUBLICATIONS

"On D. Quattro: "Rawls and Left Criticism"." Political Theory (February, 1985).

FIELDS OF STUDY

Major Field: Political Science

Major: Political Theory

Minor: Comparative Politics
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>ii</td>
</tr>
<tr>
<td>VITA</td>
<td>iii</td>
</tr>
<tr>
<td>ABBREVIATIONS</td>
<td>vi</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>Hayek's Message</td>
<td>3</td>
</tr>
<tr>
<td>The Philosophical Task</td>
<td>5</td>
</tr>
<tr>
<td>The Plan of the Present Work</td>
<td>10</td>
</tr>
<tr>
<td><strong>CHAPTER</strong></td>
<td></td>
</tr>
<tr>
<td>I. THE EPISTEMOLOGICAL DIMENSION</td>
<td>16</td>
</tr>
<tr>
<td>II. THE METHODOLOGICAL DIMENSION</td>
<td>28</td>
</tr>
<tr>
<td>The Austrian Connection</td>
<td>29</td>
</tr>
<tr>
<td>Hayek's Views on Science and Method</td>
<td>34</td>
</tr>
<tr>
<td>Popper and Hayek</td>
<td>48</td>
</tr>
<tr>
<td>III. THE ECONOMIC DIMENSION</td>
<td>64</td>
</tr>
<tr>
<td>The Marginalist Revolution</td>
<td>65</td>
</tr>
<tr>
<td>The Keynesian Episode</td>
<td>74</td>
</tr>
<tr>
<td>The Socialist Calculation Debate</td>
<td>87</td>
</tr>
<tr>
<td>IV. THE CRITIQUE OF SOCIALISM</td>
<td>107</td>
</tr>
<tr>
<td>Kinds of Rationalism</td>
<td>109</td>
</tr>
<tr>
<td>Intellectuals and Socialism</td>
<td>114</td>
</tr>
<tr>
<td>The Development of Hayek's Radical</td>
<td></td>
</tr>
<tr>
<td>Anti-Socialism</td>
<td>118</td>
</tr>
<tr>
<td>The Post-War Warning</td>
<td>121</td>
</tr>
<tr>
<td>The Mixed Economy and the Welfare State</td>
<td>132</td>
</tr>
<tr>
<td>Section</td>
<td>Page</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>V. THE LIBERAL ORDER</td>
<td>141</td>
</tr>
<tr>
<td>Justifying Individual Freedom</td>
<td>143</td>
</tr>
<tr>
<td>The Two Liberal Traditions</td>
<td>147</td>
</tr>
<tr>
<td>Law, Legislation and Liberty</td>
<td>153</td>
</tr>
<tr>
<td>Rules vs. Orders</td>
<td>163</td>
</tr>
<tr>
<td>A Model Constitution</td>
<td>173</td>
</tr>
<tr>
<td>The Legitimate Tasks of a Liberal Government</td>
<td>179</td>
</tr>
<tr>
<td>VI. THE MIRAGE OF SOCIAL JUSTICE</td>
<td>187</td>
</tr>
<tr>
<td>The Mirage of Social Justice</td>
<td>189</td>
</tr>
<tr>
<td>Commutative Justice</td>
<td>193</td>
</tr>
<tr>
<td>The Meaning of Social Justice</td>
<td>201</td>
</tr>
<tr>
<td>Liberal Egalitarianism</td>
<td>206</td>
</tr>
<tr>
<td>VII. CONCLUSIONS</td>
<td>219</td>
</tr>
<tr>
<td>Hayek's Consistency</td>
<td>221</td>
</tr>
<tr>
<td>Hayek as an Ideologue</td>
<td>224</td>
</tr>
<tr>
<td>Hayek's Methodological Liberalism</td>
<td>234</td>
</tr>
<tr>
<td>Final Remarks</td>
<td>245</td>
</tr>
<tr>
<td>BIBLIOGRAPHY</td>
<td>249</td>
</tr>
</tbody>
</table>
ABBREVIATIONS

The following list of abbreviations refer to books or collections of essays written by F. A. Hayek. When referring to a particular book or article by Hayek the source will be identified first followed by the relevant page or pages. References made to all other books or articles will be indicated by a number which corresponds to the numbered bibliography appearing at the end of the text.

CEP Collectivist Economic Planning (editor) 1935
SA The Spirit of the Age (editor) 1942
RS The Road to Serfdom 1944
IEO Individualism and Economic Order 1948
SO The Sensory Order 1952
CRS The Counter-Revolution of Science 1952
CH Capitalism and the Historians (editor) 1954
CL The Constitution of Liberty 1960
SPPE Studies in Philosophy, Politics and Economics 1967

NS New Studies 1978
LLL1 Law, Legislation and Liberty: Rules and Order (1973)
LLL3 Law, Legislation and Liberty: The Political Order of a Free People (1979)
CI "Coping With Ignorance" in Champions of Freedom Vol. 5 (1979)

For a comprehensive bibliography of Hayek's publications consult Essays on Hayek pages 51-59 edited by Fritz Machlup.
Friedrich A. Hayek was born in Vienna in 1899. Intellectuals and scientists line his family tree, including his father who was a doctor of medicine and later a professor of botany at the University of Vienna. Both of his brothers were university professors, one in anatomy and the other in chemistry. Hayek received two doctorates from the University of Vienna, one in Law in 1921 and a second in Political Science in 1923, breaking with the family's predilection for the natural sciences. Upon graduation he was hired by Ludwig von Mises, the leading economist of the Austrian School, to work as his assistant in a government office. This was an auspicious event in his life, as von Mises was to become his most important intellectual mentor. In 1927 they founded the Austrian Institute for Economic Research, to study business cycles and economic policy. At the same time Hayek lectured in economics at the University of Vienna.

In 1931 he travelled to England to give a lecture series at the London School of Economics at the request of Lionel Robbins. Soon thereafter he was appointed Professor of Economic Science and Statistics at the University of London, and held that position until 1950. While in England
he met John Maynard Keynes, with whom he would be both a friend and an intellectual adversary. In 1938 he became a naturalized citizen of the United Kingdom.

Prior to the Second World War, Hayek's publications were on purely economic issues or on issues dealing with the methodological problems of economics. However, in 1944 he published the short political polemic, *The Road to Serfdom*, for which he became widely known. The book created a stir by condemning social planning and economic management by government. His thesis was that while planning seems to be rational and humane, in fact, it creates the preconditions for a totalitarian political order. The book received an unusual amount of attention in the U.S. and in 1950 Hayek accepted an offer from the University of Chicago to become a Professor of Social and Moral Science and a member of the school's Committee on Social Thought. During his twelve years at Chicago he turned his attention exclusively to social and political theory. The end product of his stay in the U.S. was the publication of his magnum opus, *The Constitution of Liberty*, the most extensive statement of his political beliefs.

In 1962 he returned to Germany as Professor of Economic Policy at the University of Freiburg, and in 1967 he retired to a honorary professorship at the University of Salzburg in his native Austria. Although slowed a bit by poor health in the 1970's, he was still able to publish a number of essays
and a three volume work *Law, Legislation, and Liberty*. The highlight of his long and productive career came in 1974 when he was awarded the Nobel Prize in Economics jointly with Gunnar Myrdal.

**Hayek's Message**

The acceptance of a Nobel Prize provides the recipient with one of the most visible and prestigious forums to speak to the world community. Hayek took advantage of this opportunity to present once again the theme which runs throughout all of his major works. His memorial lecture, "The Pretense of Knowledge", represents the culmination of a lifelong effort to expose the major philosophical and logical flaws underlying much of modern economic and political thought. (NS:23-34) In his view, a number of erroneous assumptions about human knowledge are directly responsible for leading many modern thinkers toward false, perhaps even highly dangerous, positions in their respective fields of study. Hayek claims that whenever men come to hold "pretentious" views about the nature of human knowledge and the capabilities of human reason, disasters in social and economic life are sure to follow. (NS:33)

Hayek's 'Pretense of Knowledge', a variation of the Socratic warning, cautions us not "to imitate as closely as possible the procedures of the brilliantly successful physical sciences". (NS:23) He feels that mankind's confidence in reason and "the unlimited power of science" has blindly
led social scientists and social reformers into accepting what he terms the scientistic attitude. Hayek claims that this attitude engenders a false or an illusory view of social knowledge and leads us into thinking that we have the same power to understand and control our social order as we do the physical order. Politically, this attitude is most widely found in socialist thought, providing the intellectual justification for massive programs of social reform and control.

Somewhat simplistically, Hayek identifies two different views about human knowledge and reason. One he labels constructionistic rationalism, the other critical rationalism. (SPPE:82-95; NS:3-22) The former, he feels, greatly exaggerates the ability of men to understand and to control their environments. This viewpoint encourages ambitious attempts at comprehensive social engineering through the use of reason and the 'scientific' management of social organizations and institutions. He sympathizes with people who are attracted to the idea of rationally planning social life, but he feels that they are unaware of, or blind to, the harmful effects that planning has on personal freedom. In short, constructionistic rationalism leads to a political order that has potential totalitarian consequences.

In contrast, critical rationalism accepts a more modest view of human capabilities and powers, and is extremely cautious about deliberate efforts at large-scale planning.
Critical rationalism acknowledges that man is not all-knowing and all-wise and, as a consequence, prefers to minimize the opportunities of men to impose their ideas or their ways of doing things on the rest of us. Politically, critical rationalists accept liberal principles of government and the free market as the least harmful way of ordering society so as to maximize individual liberty for its members.

Ultimately, he feels, the debate between liberal capitalism and socialism can and must be viewed from the vantage point of the type of answers given to the central problems of epistemology and methodology.

The Philosophical Task

The issue concerning the connection or the relationship between theories of knowledge and political and social theories has recently received a fair amount of attention. Three such book-length treatments of this question include Ellen Wood's *Mind and Society*, Roberto Mangabeira Unger's *Knowledge and Politics*, and Thomas Spragens' *The Irony of Liberal Reason*. Without going into great detail, all three emphasize, in Spragens' words, that "epistemology and political conceptions do have significant points of contact." (146:10)

In her book Wood argues that philosophical systems may exhibit "affinities" between and among its different aspects. Systems of thought, she suggests, usually are
united by a common mode of thought or by a common denominator so "that moral and even political implications can be drawn from epistemological theories" or theories of the mind and epistemology (can) be derived from moral and political doctrines." (164:4) In particular, she tries to show that liberal individualism as a political and social theory is wedded to a Lockean empiricist theory of knowledge. By examining this connection she concludes that a "congruity, perhaps even a logical connection, (exists) between sets of ideas that are often at best only unconsciously connected in the mind of a given thinker." (164:15)

Unger notes in the introduction to his book that to speak of a "relationship between knowledge and politics seems odd to us"; yet, he claims, "the decisive question for political thought is, what can we know?" (151:3) His thesis assumes that there is

a continuum of accessible truth ... bridg(ing) the study of knowledge to the understanding of individual conduct to the science of society, and from the science of society to the exercise of political choice. (151:4)

In short, the particular aspects of knowledge and politics must be studied and integrated if men are to fully understand (or criticize) their social existence.

And lastly, in another work dealing with this topic, Thomas Spragens writes that:

The problems of knowledge -- what may man know, how he may know it, who may know it -- seem to constitute a peculiarly recondite philosophic concern ... Further thought, however, suggests
that epistemological and political conceptions do have significant points of contact. These points of contact are more latent than manifest, but they are nonetheless present. Men may not seek out epistemological treatises for guidance on immediate political issues. However, their tacit assumptions about the who, the what, and the how of reliable knowledge profoundly shape their basic orientation and attitude toward a whole range of important political concerns.

(146:10)

Here, too, Spragens senses that an important, albeit an abstract, relationship exists between epistemological questions and political concerns.

While all three authors assume that such a connection exists, of equal interest is that they all use the connection to criticize liberal thought. In other words, they hope that once we grasp the structural connection, the affinity, or the bridge, we can more easily see the contradictions or the flaws inherent in the liberal position. Hayek, I will argue, agrees with their premise, but not with their use of it. He defends liberalism from the standpoint that its principles and practices are best suited to the nature of human knowledge. His view is that human knowledge is limited, fragmented, fleeting, and volatile, and because of this we can draw many implications for the ordering of our economic, social, and political life. The genius of liberal institutions and practices, he wants us to believe, is that they help us to cope with the ignorance we invariably encounter in all walks of life. This is a theme that will be developed in great detail in the pages which follow.
I have chosen to call this analysis of Hayek's thought "methodological liberalism" to underscore the idea that there is an affinity between questions of knowledge and method on the one hand, and political theories on the other. In one sense I am engaged in a reconstruction or an explication of Hayek's views spanning fifty years of a very active intellectual life. In particular, it is an effort on my part to show that a common thread connects the various aspects or dimensions of his thought. In addition, I will argue that Hayek has constructed a new defense or a new foundation for liberalism. This leads us to another point. Why is it necessary for someone like the present writer to interpret someone's ideas or to tell others what a particular thinker is doing in his work? Is it really necessary to do secondary commentaries to tell others what a thinker "really" meant, or was "trying" to say, as if the thinker could not clearly execute his or her own ideas? The quantity of exegetical work produced over the centuries lends support to the notion that interpretations are needed. For various reasons, it falls to others to clarify, correct, or popularize the ideas of original thinkers. Sometimes these interpretations go so far as to suggest that certain thinkers were unable or unwilling to see what was "really" going on in their work. Of course this is a well known and a widely practiced game of philosophically inclined commentators, and much of what they produce is valued. They may
uncover contradictions in a piece of writing or indicate where the thinker has not considered a particular issue fully or carefully enough. Sometimes a thinker may just be wrong or hopelessly muddled and needs to be told so.

In attending to the thought of F. A. Hayek, I hope to abide by the following objectives as an interpreter and critic. First, to bring an open mind to his ideas, to be a sympathetic reader, and to try to understand his world view. Second, to let him speak for himself on as many issues as possible, supplemented by my own remarks with as few distortions as is humanly possible. And third, to point out instances where his analysis is one-sided or where by his own logic his ideas produce major difficulties. For example, in Chapter Five I will show that his proposals to introduce new constitutional principles could result in activities that in principle he would have to oppose.

Also connected to these concerns is my general thesis that his work represents a new foundation for liberal principles. This is not a claim that Hayek makes on his own behalf. While he is certainly concerned with defending liberalism, nowhere does he argue, as I will, that he has given us a radically new, and possibly a better, defense of classical liberalism. By focusing on a theme found dispersed throughout his major works (namely, that there are important limits to human knowledge and reason), I intend to show how this theme is the core element of his thought. I
hope to show that it is the foundational support of the positions he comes to defend in political, economic, and even methodological matters. Furthermore, I will argue that his foundation is fundamentally different from other foundations historically used to defend liberalism. For this reason alone, to present such an interpretation is, I hope, of some value.

The Plan of the Present Work

One of the major tasks of this work will be my reconstruction of Hayek's thought in four dimensions, namely, epistemology, methodology, economics, and politics. In Part One I will analyze his positions on epistemology, methodology, and economics in three separate chapters. The political dimension of his thought will be taken up in three chapters in Part Two.

In Chapter One I will piece together his thinking about the nature of human knowledge and the workings of the human mind. Hayek argues that knowledge is contingent upon flexible categories of the mind. This accounts for his notion that human knowledge can be individualized, but not so distinctly that individuals cannot understand how others think and act on the basis of the knowledge they come to possess.

Chapter Two will draw upon his theory of knowledge to indicate its implications for social inquiry. There will be a discussion of the methodological tenets of the Austrian
School and the influence this tradition has had on Hayek's early methodological thinking. Also included for discussion are his views on naturalism, methodological individualism, subjectivism, and his theory of simple vs. complex phenomena. Finally, we will note the influence that Karl Popper has had on Hayek's ultimate rejection of methodological dualism. As we shall see, the Popperian view differs substantially from many standard Austrian views on methodological issues. The "mature" Hayek, I will argue, has come to accept a position in which the duality thesis (different kinds of methods for different concerns) gives way to a unity of method approach, although he acknowledges that we will have differing degrees of success in using it.

The last chapter in Part One deals with Hayek's economic thought. Using or stressing the individualistic approach, and his firm belief that we have a limited ability to systematize knowledge, Hayek has attacked three major currents in 20th century economic thought, namely, general equilibrium theory, Keynesianism, and economic planning. In each case we will see that his criticism is closely linked to his methodological presuppositions. Also examined will be Hayek's defense of the market order. The defense rests on his belief that the spontaneous market order is best suited to utilize the fragmented, fleeting, and individualized character of social knowledge. Because of this condition, the market order allows for a type of economic
efficiency which is far superior to the efficiency of a planned economy. But above and beyond this, Hayek maintains that there is a vital connection between a market order and a free society. In general, Part One can be seen as supplying the epistemological, methodological, and economic foundation for a set of political principles which, Hayek tells us, will maximize individual liberty and social progress.

Part Two, dealing with Hayek's political thought, begins in Chapter Four with his rejection of socialism as a political doctrine. Hayek debunks socialism because, in his view, it is based on a faulty view about the economic organization. Economic planning and freedom, he maintains, are antithetical although few seem to recognize their incompatibility.

In Chapter Five we move from Hayek's critique of socialism to what we might term his positive political theory or what he calls the Principles of the Liberal Order. In this chapter we will analyze the proper roles and duties he assigns to the state. The main functions of government are to guarantee basic freedom, to protect the free market system, and to provide a level of stability in social life which facilitates individuals to pursue their own plans. Also included for discussion will be his controversial
constitutional plan which he offers as a means of protecting liberal principles from short-sighted legislators, social planners, and powerful interest groups.

The important issue of social justice will engage us in Chapter Six. Hayek feels that the contemporary debate about social justice is potentially quite dangerous. Social justice is, he feels, a phrase which is widely used in political discourse but with little regard for its exact meaning. Hayek's intention is to unmask the dangers inherent in the political use of the term, and to support instead a commutative or market view of justice.

In my concluding chapter I will address the following questions:

1) Is Hayek's liberalism logically consistent across all dimensions?

2) Is Hayek's political theory an ideological fog functioning to prevent social and economic reforms, particularly those stressing greater economic equality?

3) Does Hayek provide a radically new foundation for the liberal tradition? Do we find that his insights about the nature of social knowledge and the limits to human reason speak in favor of accepting liberal political and economic principles?

I will attempt to defend the following claims. First, Hayek is logically consistent across dimensions, but that consistency does not imply truth. Second, his thought can and does function as an ideology in Mannheim's sense of the word. And lastly, while a valid claim can be made that Hayek has constructed a new defense for liberalism, it is a
defense which must be judged as reactionary and which vio-
lates his own principle of evolutionary development so vital
to the core of his thought.
NOTES

1. For this short account of Hayek's life I draw heavily upon Eamonn Butler's *Hayek* (24:2-7).

2. For a notable example of this type of interpretation see C. B. MacPherson's *The Political Theory of Possessive Individualism* for his analysis of Hobbes and Locke (103).
THE EPISTEMOLOGICAL DIMENSION

Hayek's most rigorous attempt to say something about the foundations of human knowledge and the workings of the mind is to be found in his 1952 book *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology*. It is a difficult book to work through, characterized by much speculation and many obtuse points. The book represents, according to Hayek, not the breaking of new ground in this area, but an attempt "to work out certain implications of generally accepted facts or assumptions in order to use them as an explanation of the central problems of the nature of mental phenomena." (SO:VII)

In my estimation, three crucial positions for epistemology can be identified. First, he accepts a largely Kantian view of the human mind as an active force in the epistemological process. Second, while Hayek views the mind as being primary in the cognitive process, he does feel that experience has a significant role in the shaping of the mind's mental categories. The import of this is that human knowledge is individualized in a significant way. And third, Hayek postulates in *The Sensory Order* that there are (at least) two orders or kinds of knowledge. One is the knowledge of the relations which exist in the physical world
between "things", and the other is the knowledge of the relations which belong to the mental order proper; that is, the relations between men and things or men and men. Implicit in this stand is support for methodological dualism as Hayek appears to be drawing a sharp line between the study of the phenomena of the natural world and the study of man's social relations. But first, why should an economist concern himself with theoretical psychology and the nature of mental phenomena?

The answer it seems is that an understanding of how the human mind perceives the world and absorbs information has wide ranging consequences for the study of man. Hayek tells us that as a young man pulled between becoming an economist or a psychologist, a "basic idea" suggested itself to him. Although his work in economics and political philosophy has generally taken him away from psychology, he writes that

The basic idea then conceived has continued to occupy me; its outlines have gradually developed, and it has often proved helpful in dealing with the problems of the methods of the social sciences. In the end it was concern with the logical character of social theory which forced me to re-examine systematically my ideas on theoretical psychology. (SO:V)

We may take this to mean that Hayek thinks that epistemology, or the way we come to know the world around us, is important to the concerns of methodology and social inquiry. The rest of this chapter will present the main themes ("The
Basic Ideas") outlined in The Sensory Order. This will then be followed by an inquiry of the significance of his position.

The Sensory Order, Hayek admits, is a work of "speculation". He feels that modern psychology has shown an "excessive contempt for speculation" preferring instead "an all too exclusively empirical approach". (SO:VI) The result has been a general neglect of theorizing about many fundamental problems. In particular, he feels that there is a pressing need to explain "the existence of a phenomenal world which is different from the physical world," a problem that a purely empirical approach he feels does not address. (SO:28)

The reason why this needs to be explored is his overriding concern with the following condition which he treats as an undisputable fact about how the human sensory order works. He states that the human senses

classify similar physical stimuli sometimes as alike and sometimes as different, and (that) different physical stimuli will sometimes appear as similar and sometimes as different. (SO:8)

There is a need he feels to unravel this paradox and to offer an explanation of why this is the case.

By stating the problem in this fashion Hayek apparently rejects the empiricist's view that the mind is a passive receptor of impressions made by external objects or events. He states that
The qualities which we attribute to the experienced objects, are strictly speaking, not properties of objects at all, but a set of relations by which our nervous system classifies them. (SO:XIX)

The mind interprets and classifies sense data, he tells us, with a "previously established apparatus of classification." (SO:XXI;167) Involved in this classification process are the mental powers of "discrimination, equivalence of stimuli, generalization, transfer, abstraction and conceptual thought." (SO:XIX) In this regard he is in agreement with Kant's epistemology which assumes that the mind has a priori categories or concepts which allow us to make sense of the external world.

In an essay written in 1969, "The Primacy of the Abstract", he more clearly states his position on the a priori nature of the mind's abstract categories. He writes that

I do not wish to deny that in our conscious experiences ... concrete particulars occupy the central place and the abstractions appear to be derived from them. But this subjective experience seems to me to be the source of the error with which I am concerned. ... What I contend, in short, is that the mind must be capable of performing abstract operations in order to be able to perceive particulars, and that this capacity appears long before we can speak of conscious awareness of particulars, ... When we want to explain what makes us tick, we must start with the abstract relations governing the order which, as a whole, gives particulars their distinct place.

(NS:36-37)

He claims that the abstract categories of the mind, or the rules of perception, are responsible for, and logically
prior to, our ability to perceive and to interpret external stimuli. But Hayek adds a twist to this standard position.

Whereas most theories of knowledge attempt to ground some element of certainty or reliability in either claiming the permanency of the natural world as perceived by the human mind, or in claiming that the mind operates according to some invariable principle, Hayek offers a third possibility. While accepting the mind's abstract categories as being primary and logically prior to our understanding of the world, they are not themselves unaffected by external stimuli. As the mind's classificatory equipment processes or sorts out incoming stimuli, Hayek states that the "sorting function itself will develop as the mind recognizes new links or distinctions between past experiences."

(24:154)

The mind's cognitive maps, claims Hayek, are themselves restructured and refitted in light of the kinds of events we experience, their number, their intensity, and their association with other events. Hayek is putting forth a theory that we have a physiological switchboard made up of neural fibers which is active in the interpretation of incoming stimuli. But in addition, he argues that our classificatory apparatus is altered or refined in subtle ways by the impulses or experiences received by our sensory order.
These past experiences are incorporated into our classificatory system, assisting us in the classifying and the interpreting of future experiences.

While theoretically all human minds begin with the same capacity to "recognize" patterns in the external world, over time different experiences will shape or sharpen the mind's categories such that variations in perceptions between different individuals may result.

For example, we may all have the same general abstract quality 'A' (to perceive colors). But this quality will vary among individuals according to their various individual experiences. An artist with a lifelong preoccupation with colors, shades, and tints will vastly develop his cognitive powers in this area in comparison with the non-artist. Variations can be accounted for (A₁, A₂, A₃ ... An). Yet all normally sighted individuals will have 'A-ness' in common. In practice, the mental power of 'A' imposes itself on the world, but the particular experiences we have will result in producing various variations in 'A-ness' in each of us. These are variations of degrees set, in Hayek's view, by the boundaries established by the a priori categories common to all. There are, he states, "certain invariable features present" in order that "we should be able to recognize or understand (others) as human beings" with minds
like ours. Yet, he continues, it is "beyond question" that individuals "differ in significant aspects" because of the uniqueness of individual experiences. (CRS:134)

What needs to be noted at this point is his insistence upon stressing a dynamic, variable, and individualistic view of the cognitive process which serves as an important foundation for many of the positions he takes in other areas. In addition, while rejecting the empiricist label, he does place a great deal of emphasis on the role of experience in explaining variations of knowledge between individuals. It is in this regard that Wood's thesis about the connection between empiricism and liberal individualism may be born out.

The last important issue raised by Hayek in _The Sensory Order_ is his concern with "the existence of a phenomenal world which is different from the physical world". (SO:28) Again, by stating the issue this way, he argues against a simple or a direct one-to-one correspondence between the objects or events of the physical world and the phenomenal or mental world. What needs explaining is what makes these two worlds fundamentally different. Hayek argues that the physical sciences have shown that the objects of the external world "do not regularly differ in their effects upon each other in the same way in which they differ in their effects upon our senses." (SO:5) In other words, there are
regularities which are fairly stable and constant in characterizing the relationships between the things of the physical world; and another type of relations, irregular ones, which characterize the phenomenal order. Hayek suggests that once the human mind becomes a direct participant in the relations (relations between men and things or men and men) we are dealing with vastly different kinds of relations. Instead of the regular relationships of the physical world, our sensory equipment either fails to distinguish regularities or our classificatory apparatus itself contributes to the irregularities. In any event, the result is that objective relationships, like those in the natural world

\[
\text{take place without the knowledge of the man concerned and without his having power to modify them; and the conditions under which they are produced can be established by external observations without recourse to the assumption that the person observed classifies the external stimuli in any way differently from that in which they can be defined in purely physical terms. (CRS:42)}
\]

He argues that we can "distinguish between the 'objective' properties of things which manifest themselves in their relations to each other, and the properties merely attributed to them by men." (CRS:49) Attributed properties supplied by men can and do differ substantially between and among men. The "knowledge which guides the action of any group of people," Hayek tells us, "never exists as a consistent and coherent body" since social knowledge is contingent upon the attitudes and beliefs that men have about their social world. (CRS:49-50)
This line of argument suggests that we are studying different things, and may need different approaches, when analyzing social phenomena. This is because, following Hayek, men can supply a meaning or a purpose to a particular thing which is not derived from any objective property of the object. A piece of gold, for example, has many objective, physical qualities. Its size, color, and mineral content can be studied and analyzed by a geologist or a chemist. But it can also have a subjective quality or a meaning supplied to it by men, independent of any of its objective attributes. This distinction between an objective, physical world and the subjective, social order of man is present in much of Hayek's work up through the 1950's. The Sensory Order attempts to give a foundation for such thinking in drawing a sharp distinction between the types of relationships found in the two different worlds or orders. However, as we will see in the next chapters, Hayek abandons methodological dualism by the 1960's. In retrospect, one must wonder why Hayek went to such lengths to sharply delineate these two orders. More than likely, I think, it was a final attempt on his part to defend methodological dualism before finally giving up, or modifying, this position. But more on this point in the next chapter.

Beyond these rather tortuous, if not confusing, arguments found in The Sensory Order, lurks a larger issue. Throughout the book Hayek poses many questions he feels must
be addressed. (How do we explain a mental order which differs significantly from the physical order? Why do similar objects or events appear sometimes as similar and sometimes as different to our senses?) But he offers no convincing arguments as to why these questions, and not others, need to be answered. In a similar way, many of the conclusions he reaches ("newly arriving impulses ... will always be evaluated against the background of the expectations set up by the previously existing patterns of impulses", S0:121) are simply paraded by us as being obvious when, in fact, they are merely speculations on his part.

I think it is clear that certain questions, or how they are formulated, can predetermine the kind of answers one comes to. In fact, a good case can be made that Hayek for the most part had already reached certain positions about the nature of knowledge prior to writing The Sensory Order, and that the key questions raised in the work were constructed with the "answers" already in mind. Theories, after all, do not develop in a vacuum. I sense that Hayek's views about knowledge, and how we come to know, developed from various positions he had already reached in his economic and political theory. If so, The Sensory Order represents a means of supplying a theory of knowledge to support views or conclusions Hayek has already accepted. This is not to say that this is an illegitimate move on his part.
But it does raise some questions about the validity of his epistemology position since it may represent a clever way to provide a veneer of truth to a particular ideological position. The case can be made that Hayek's interest in doing an epistemological work was to build a foundation which could support his view that social knowledge is variable, incomplete, fragmented, and limited. Obviously, if a convincing foundation could be supplied to support the validity of this view, then Hayek then could proceed to make many knowledge claims about the structuring of our social, political, and economic worlds. Unfortunately, he has not made an unimpeachable case.

In conclusion, I think it cannot be said that Hayek presents us with a theory of knowledge proper; more precisely he has a theory about knowledge. He has not given us a convincing grand theory about how man comes to have reliable knowledge but, instead, alerts us to the limited ability we have in gathering, processing, and utilizing social knowledge. Having said this, we now turn to the problems of methodology to see how his views about knowledge are related to the scientific study of social life.
NOTES

1. For a discussion of this point, and Hayek's views on epistemology, see Eugene F. Miller's "Hayek's Critique of Reason", Modern Age (Fall, 1976) pp. 393-394. Miller contends that Hayek's epistemology is so shaky that it, in fact, undermines his own positions in politics and economic theory. Conversely, I hope to show that Hayek is well aware of the volatility of the position he has taken and that he hopes to use it to defend his views in other dimensions. That is, because social knowledge is what it is (limited, fragmented, and fleeting) we need to adopt particular types of social, political, and economic arrangements, and not others, to make the best of this situation.
THE METHODOLOGICAL DIMENSION

Hayek's excursion into the nature of human knowledge was not meant to be an isolated exercise. Recall that in his introduction to _The Sensory Order_ he tells us of his project to work out a "basic idea" about knowledge. He was impelled to do so because of his concern with the logical character of social theory which forced him to re-examine systematically his ideas on theoretical psychology. (SO:V)

To repeat, we found that Hayek's basic idea was that man's cognitive process produces a phenomenal world which is not constant but "incessantly changing." The methodological import of this, Hayek claims, is that "the ideal of a purely descriptive science (of the mental order) becomes altogether impossible." (SO:175) If this is so, we must ask how this affects the scientific study of man and his social world.

We will begin this chapter with a discussion of the methodological program of the Austrian School. This is important for two reasons. First, Hayek is considered to be one of the preeminent figures working in this tradition. Second, his "mature" methodological works betray a significant change in the standard Austrian methodological position. I will analyze how his ideas have changed as he has moved to accept a Popperian view of science. In analyzing
this shift, T. W. Hutchison argues that two Hayeks can be identified. There is Hayek I who accepted the standard Austrian views on method up until 1936, the Hayek who is still favorably quoted by traditional members of the Austrian School on methodological questions. And then there is Hayek II appearing, or evolving, after 1936 showing the influence of Karl Popper. (77:210-219) In any event, by the 1960's Hayek is found supporting a view of science which differs substantially with many of his earlier positions. In effect, he has tried to find the common ground between these two traditions and, in doing so, he has shifted his views in this dimension substantially over the years.

The Austrian Connection

More will be said in the next chapter about the Austrian School's views on economics. Presently, we will concern ourselves with their positions on scientific methodology. Carl Menger, the founder of the Austrian School, played a leading role in the so-called marginalist revolution in economic thought in the 1870's. A significant part of this revolution had to do with methodological issues. At the heart of Menger's analysis was the importance of addressing the subjective wants of individual consumers and producers. Hayek tells us that at every stage Menger stresses how important economic properties, such as value,
depend on the wants of the person who is acting, and upon his knowledge of the facts and circumstance that make the satisfaction of his need depend on that particular object (NS:275)

In essence, Hayek claims that Menger laid the foundation for what is now called the pure logic of choice or economic calculus. (NS:276) In this approach we make sense of individual actions in complex social structures by observing the actions of individuals as they choose the means by which they hope to obtain particular ends. By the use of the atomistic or individualistic method it is possible to construct models of complex social behavior, or as Hayek explains Menger's method, "we start from our acquaintance with the elements and use them to build models of possible configurations of the complex structures into which they can combine." (NS:277) In such an approach "we are assisted by a capacity of understanding the meanings of such actions in a manner in which we cannot understand physical events." (NS:277) Hayek, following Menger, tells us that social theories are 'subjective' in character because they are based on our capacity to comprehend the intended meanings of the observed actions (NS:277)

This, Hayek claims, "implies a verstehen ('understanding') in the sense in which Max Weber later developed the concept." (NS:277)

Of course we do not have complete information about the intentions and actions of every individual involved in a complex social structure. We can, however, have enough
knowledge from our observations and experiences to, in Hayek's words, "supply us with a sufficiently complete catalogue of the various types of individual conduct that (are) likely to occur, and even with adequate knowledge of the probability that certain typical situations (will) occur." (NS:277-278) In this sense, Hayek adds, we might develop theories which could lead to predictions of the kind of structure that would occur, ones capable of falsification. (NS:277-278) In any event, what is important to note is Menger's methodological stress on individualism and subjectivism. Consequently, Menger and his followers rejected the naturalistic approach believing it to be useless in analyzing the subjective nature of human action and valuation. (160:ii)

Most, but not all, modern-day Austrians eschew the objective-empirical methods, including mathematical and statistical approaches. Ludwig von Mises, probably the most prominent 20th century member of the Austrian School, argued that

there are events we wish to explain (namely, human actions) which are beyond the range of those events that the procedures of the natural sciences are fit to observe and to describe. (155:Xl)

He goes on to make the distinction that "the natural sciences are (involved in) causality research, (while) the sciences of human action are teleological." That is, the sciences of human action differs in that they deal with the
purposes or "the ends sought by acting men in the pursuit of their own designs." (154:129-131) Mises' term for a distinctive science of human action is praxeology. Like logic or mathematics, he claims that "praxeology is a priori. All its theorems are products of deductive reasoning that starts from the category of action ... (where) every action is an attempt to exchange one state of affairs for another." (155:44) When reasoning about the logic of individual actions we assume that all human thought and action is predicated upon common a priori mental constructs. For example, we employ "the concepts of ends and means, success or failure, profit or loss, and cost" to help us understand and explain the logic of the goal-directed actions of individuals in a social setting. (155:8) In addition, Mises argues that praxeological reasoning and theorems are "not derived from experience" and "are not subject to verification or falsification on the grounds of experience and facts." (84:552)

Because of the emphasis the Austrians place on purpose and intentionality, and the claim of apodictic certainty for their theorems, made by von Mises, they argue that the social sciences require an approach different from those used in the natural sciences. One can rightly speak of purpose or intent when analyzing human behavior, but not so in dealing with natural phenomena. This supported their
belief in methodological dualism. In particular, they rejected the notion that their theories be "subject to verification or falsification." I mention these two points because Hayek will break with many mainstream Austrians over them.

Under the influence of Karl Popper, Hayek will abandon the duality thesis and the Austrians' rejection of testing theories empirically. The early Hayek, or Hayek I, presents a fairly standard Austrian account of the methodological problems of social inquiry. In his *Counter Revolution of Science*, a collection of essays published in 1951, he writes that the social sciences

> deal not with the relations between things. But with the relations between men and things or the relations between men and men. They are concerned with man's actions, and their aim is to explain the unintended or undesigned results of actions of many men. (CRS:41)

In addition, he states that the relations between men "cannot be studied in the objective terms of the physical sciences but only in terms of belief" and by "a consistent application of subjectivism." (CRS:53) The essays which comprise the *Counter Revolution of Science* are still strongly Austrian in tone and still strongly suggest that there are significant differences between the natural and the social sciences. However, as I will argue, Popper's view of science will allow him to hang on to the individualism and subjectivism of the Austrian School without having to accept
their rejection of theory testing. As such, in his mature writings he breaks away from methodological dualism by supporting a position that acknowledges some differences between them, but differences of 'degree' and not of 'kind'. But more on this point later.

Hayek's Views on Science and Method

Science, Hayek claims, has its beginning in human curiosity. Our senses discern "some recurring patterns" in the flux around us and this activates the deductive process of the human mind.

Questions will arise at first only after our senses have discerned some recurring pattern or order in the events (around us). It is a recognition of some regularity, (or recurring pattern, or ... order), of some similar feature in otherwise different circumstances which makes us wonder and ask 'why?'. (SPPE:23)

While "many such regularities of nature are recognized 'intuitively' by our senses ... many of the patterns of nature we can discover only after they have been constructed by our mind." (SPPE:23) The task before scientists, Hayek suggests, is to formalize these abstract patterns, to fill them in and, if possible, to explain the causal mechanism involved. The events around us appear to make sense because they fit into one of our intuitive or abstract patterns. Yet it is the intellectual exercise we call science that helps us to understand how particular objects and events make up, and become part of a recurring pattern.
Theoretical science is a process of building models of the working principles involved in a phenomenon we wish to know more about. Models attempt to identify the crucial variables of the phenomenon, and show how they interact with each other, by depicting them in a simplified form. As such, scientists never begin their work by induction. They never simply collect facts without first adopting a theoretical model that gives meaning or shape to the otherwise random facts we encounter.

The hypothetico-deductive method of science, as described by Karl Popper and accepted by Hayek, operates by offering statements of prohibition. The process of checking our models or theories is not accomplished by piling-up supportive evidence. Instead, we identify in advance what facts or events would be prohibited by our theory. If the theory is not falsified by counter-factuals, and if it is able to withstand rigorous attempts to refute it, then we are justified in tentatively accepting the theory. (123:131-135) (SPPE:28)

Hayek has come to accept the Popperian view that deductive propositions should be made testable and then tested against the facts at every step. However, he is quick to point out that this guideline is not equally applicable in all scientific fields. Disproof by observation, claims Hayek, does not represent
a general characteristic of all scientific procedure, but one which may be the rule in physics and occasionally ... in the biological sciences, but which presupposes conditions which are not present in many other fields. (SPPE:5)

The key in understanding his argument turns on the types of models scientists are able to construct and the nature of the evidence that they can offer in testing them. In two important essays on method, "Degrees of Explanation" (1955) and "The Theory of Complex Phenomena" (1961), we encounter for the first time support for Popper's views of science and the elaboration of his own complexity thesis.

Hayek states that there is a hierarchy or a degree of complexity involved when studying various types of phenomena. (SPPE:22-42) Scientists in some cases are able to construct models which closely resemble the phenomenon being studied. Some of these models give a fairly good idea of the working principle of the phenomenon in question. But as we move from studying simple to more complex phenomena, we usually find that our ability to construct a model or an explanation correspondingly diminishes. Variations in the degree of complexity, maintains Hayek, is related to identifying and treating "the minimum number of elements of which an instance of the pattern must consist in order to exhibit all the characteristic attributes of the pattern in question." (SPPE:25) The scientist is able to construct a satisfactory model if he can identify the key variables of
the pattern and show how they combine to demonstrate the working principle of the phenomenon being studied.

Complexity, in Hayek's view, not only affects the minimum number of key variables but also involves the ability of scientists to insert numerical values into their theoretical models. Some physical phenomena allow us to observe and measure their key variables so that we can express our models in more precise, empirical terms. (SPPE:33) On the other hand, most social phenomena we study defy direct and easy observation and, therefore, we are seldom able to specify in precise terms the values or the magnitudes of the key variables. (SPPE:26) Physics has been highly successful as a science, Hayek feels, because the phenomena it deals with are relatively simple; that is, there are fewer and more empirically based variables involved. Social phenomena, by contrast, are extremely complex because of the larger number of variables and factors involved, and because the task of finding quantifiable regularities is nearly impossible. If he is correct in this regard, Hayek feels that the degree of phenomenal complexity is an important concern for methodological questions. However, it is often unclear whether he argues for a clear and distinct break between the simple and the complex or, instead, supports a hierarchical view of phenomenal complexity. If it is the second view, Hayek is moving away from his earlier position
and is putting down the groundwork to support Popper's conception of an unified view of scientific methodology.

The first interpretation supports the position that different phenomena requires different methodological approaches. If so, the methods found so successful in handling physical phenomena are, in general, inappropriate for social phenomena. This position was strongly supported by Hayek in his early essays on method and can be traced to the anti-naturalist position held by fellow Austrians. Furthermore, the arguments found in The Sensory Order and the essays in the Counter Revolution of Science, concerning the nature of the different types of relations involved, tend to support methodological dualism. The second interpretation mentioned above seems to be supported in his later methodological essays which stress the notion of complexity. In these essays we find that his thoughts about the nature of social phenomena have not changed much at all. He still considers them to be highly complex phenomena, characterized by few constants, limited empirical content, and having patterns difficult to observe. Social explanations tend to be very general, and predictions, if possible are not very precise when compared against the explanations and predictions of the "simpler" physical sciences. (SPPE:11-12)

Where we notice a significant shift is in his revised appreciation of the actual methods and practices of the natural sciences. Simply put, Hayek tells us that we have
been oversold, if not completely misled, about the ability of natural scientists to offer full explanations and precise predictions in their fields. (SPPE:VIII) Because the natural sciences have recorded a high rate of success in developing impressive explanations and predictions, their methodology has been made, by some, the exemplary approach to all scientific studies. (CRS:24) However, on closer examination, we find that all scientific theories seldom, if ever, fully deliver on all that they claim. Hence, by pulling away from an exaggerated view of the accomplishments of the natural sciences, Hayek now finds an opening for a reconciliation in methodological questions. The two orders, the natural and the social, may have more in common methodologically than he originally thought.

He tells us that students of social inquiry have long realized that their theories or explanatory models most often deal with "a certain range of phenomena which can be produced by the type of situation which it represents" (SPPE:15). The natural sciences, he feels, are no different in this regard. Hence, in all scientific work, we really "do not refer to an individual event but always to phenomena of a certain kind of class ... (such that) each property stated will be expressed not as a unique value or magnitude but as a range ... within which the property will fall" (SPPE:9).
We must take this to mean that scientists do not typically explain a singular event. Instead, they explain a class of like events of which a particular event is but a representative case. In a like manner we do not make "exact" predictions of what will occur in the future. Instead, our predictions tend to fall within a prescribed range, and working scientists usually will accept anything falling within these ranges as supporting the theoretical principle in question.

Apparently, the notion of complexity is directly related to Hayek's understanding of phenomenal classes and predictive ranges. The sciences which deal with simple phenomena have a limited and a more precise number of objects or events falling within their classes and a narrower predictive range. This allows their theories to be more exact and, thereby, more impressive. Complex phenomena, conversely, having less specific classes and a wider range of acceptable predictions, produce, according to Hayek, less impressive theories. As a rule, Hayek claims that precision in both explanation and prediction diminishes as phenomenal complexity increases. (SPPE:15)

Hayek fails to elaborate on these points in his published work, therefore, I will attempt to do so for him. Simple phenomena can often be encapsulated in basic "if-then" statements (if X, then Y). Where 'X' and 'Y' each represent single, observable events, we have a relatively
simple way of analyzing the pattern. If whenever we find 'X', and it is immediately followed by 'Y', we have a temporal-spatio relationship and possibly even a causal relationship. The theoretical statement ('X' causes 'Y') is also subject to simple tests of falsification. If ever 'X' occurs, but not 'Y', or if 'Y' occurs without being preceded by 'X', we have good reason to question and to revise our theory.

Most explanatory models can be expressed in symbolic propositional forms as in the above example 'X→Y'. We can conceive of many examples which express a hierarchy of increasingly complex relationships:

\[
X \rightarrow Y \\
X \rightarrow Y_1 \text{ or } Y_2 \text{ or } Y_3 \\
X \rightarrow Y_1 \text{ or } Y_2 \text{ or } Y_3 \ldots Y_n \\
X_1 \text{ or } X_2 \text{ or } X_3 \rightarrow Y \\
X_1 \text{ or } X_2 \text{ or } X_3 \ldots X_n \leftarrow Y_1 \text{ or } Y_2 \text{ or } Y_3 \ldots Y_n
\]

Notice that complexity, defined here by the number of variables and their highly complicated relationships, widens both the class and the range of the phenomena being studied. In the second example above 'X' is shown to cause a range of 'Y's. We are not sure which 'Y' will occur, only that one member of the 'Y-class' will follow. In the most complex pattern above any 'X-type' belonging to the 'X-class' may cause any one of the 'Y-types' included in the 'Y-range'.

The second component of complexity, the ability to observe and to specify exact values for the symbolic figures, adds yet another problematic dimension for developing explanations and proffering predictions. As stated above, Hayek feels that simple phenomena can be observed and measured in more precise ways. Therefore, with simple phenomena we can develop more precise explanatory models (e.g., if X=2 and Y=1, then 1X=2Y). Equations which delineate chemical reactions and statements like "at sea level water turns to vapor at 100 degrees centigrade", are examples of how the natural sciences are able to supply numerical values in their explanatory models.

Explanatory models in the social sciences can also be illustrated by propositional equations. But our ability to specify the values in such models is, by comparison, more difficult, if not impossible. Yet these models are still valuable in depicting general relationships even if precise predictions are not forthcoming. While they may not tell us that "X will occur at a particular time and place", they will provide us with important knowledge about the world. For example, to know that prices will not remain stable when the supply of money increases is an important bit of social knowledge, even though we are not able to predict the exact level that prices will rise if the supply of money increases by, say, five percent. We simply know that prices will change and in what direction. What we typically have in the
social sciences are not precise "positive" predictions, but rather predictions of a "negative" nature. That is, we can predict with a high degree of certainty that X and Y will not occur together. (SPPE:10,16) While we may prefer positive predictions, Hayek argues that negative predictions are of great value and, in fact, may be the best we can do. "The practical value of such knowledge", he states, "consists ... largely in that it protects us from striving for incompatible aims" or that "certain types of institutions will not be found together." (SPPE:17)

Consequently, we find that the theoretical models of complex phenomena will, at best, be expressed in a propositional language:

If 'X' then not 'Y'
or
'X' > 'Y'

Again, while such relationships appear to be trivial and not very useful, Hayek claims that they are useful and may be the best we can do given the nature of social phenomena.

Hayek feels that

The practical value of such knowledge consists ... largely in that it protects us from striving for incompatible aims. (Many of these social theories) equip us with ready-made schemes which tell us that when we observe given patterns of phenomena, certain other patterns are to be expected but not some others. ... They indicate a range of phenomena to be expected. They are more uncertain only in the sense that they say less about the phenomena, not in the sense that what they say is less certain. (SPPE:17)
To summarize his argument, social theories do provide us with some very useful and certain knowledge, albeit the extent or the amount of this knowledge may not measure up against the type of knowledge that physical science theories give us of less complex phenomena.

Complex phenomena, however, will allow for what Hayek terms "explanations of the principles"; i.e., explanations which illustrate the theoretical principle or mechanism found in the recurring abstract pattern. These theoretical explanations are largely 'algebraic', describing "only the general character of higher-level generalities" observed or partially observed. (SPPE:29) As complexity increases and the empirical content decreases, we find and must accept a corresponding drop in explanatory completeness and predictive prowess. Hayek wishes to make it clear that this condition is not due to our failure to employ the "proper methods" or to "follow better counsel". Hayek vehemently denies all charges of "immaturity" or of the "provisional state of the social sciences". He argues instead that the social sciences have a "refractory nature". That is, it is "the nature of the subject (that) puts forever beyond our reach the sort of explanation of detail which would enable us to make specific predictions". (SPPE:30) Hayek would prefer that we look upon the predictions of social inquiry
as "orientations". They are not exact statements of future events, but fairly representative ones nonetheless. (SPPE:17)

Hayek is fond of using the theory of evolution to an example of a theory which illustrates his concept of the "explanation of the principle". (SPPE:11-14) It is a theory which is considered by many to be a sound explanation, yet one having a very limited predictive base. The working principle is generally stated in the following fashion. In the reproductive process random mutations occur in DNA molecules which produce variations in the gene pool. If a variation proves useful in a particular environment, an organism capable of turning it into a plus in the struggle to survive might benefit, those lacking the variation may well die. Therefore, random mutations, environmental factors, and the survival quotient suggests to us the principle of biological evolution.

As a scientific theory we can specify the conditions which would force us to reject the principle of evolution. For example, if we cut off the right legs of a frog population and they reproduced offspring missing their right legs the theory of genetic transfer would be disproved. Or if a swampy area dramatically turned into a barren desert and soon thereafter the frog population started to have offspring without gills and webbed toes (and took on reptilian physical features), again, something would be wrong with the
theory. The theory forbids certain types of results and offers a theoretical mechanism which accounts for present-day developments. Yet the task of ascertaining all of the data required for a complete explanation of the evolutionary process would be, as Hayek notes, "often insurmountable in practice and (is) sometimes even an absolute one." (SPPE:27) A case in point is that the evidence supporting evolution comes from the fossil record and not from crucial tests, experiments, or predictions.

Predictions, like explanations, can be said to be hierarchial or indicative of "degrees" of exactness (SPPE:9). As in the case of evolution, the number of factors involved coupled with the unknown future developments, virtually eliminates the possibility of predictions. We may have some statistical information concerning the approximate rate of significant genetic mutations, but this will not provide the scientist with enough information to predict future developments. Ostensibly, the best we can do is to indicate what kinds of things will not happen (horses will not have winged offspring) and to offer judgments concerning how observed changes are logical demonstrations of the evolutionary principle.

Hayek approvingly cites Michael Scriven's argument that the theory of evolution, as well as other social science theories, provide us with "hypoethical predictions" since
predictions coming from these types of theories rest on "yet unknown future events". As such, 

The range of phenomena compatible with it will be wide and the possibility of falsifying it small. But as in many fields, this will be for the present, or perhaps forever, all the theoretical knowledge we can achieve, it will nevertheless extend the range of the possible advance of scientific knowledge. (SPPE:35)

"Explanations of the principle", usually the only type applicable to complex phenomena, have some inherent methodological difficulties. Because such theories are "difficult to disprove", Hayek understands that the "elimination of inferior rival theories will be a slow affair, bound up closely with the argumentative skill and persuasiveness of those who employ them" (SPPE:19). Lacking simple tests of refutation, we are often left, Hayek fears, only with the "good sense" of those competent in the field. (SPPE:19)

Hayek must also be arguing for a position that I will term "degrees of falsification". If the nature of explanations and predictions changes as complexity mounts, so too must our ability to offer testable conjectures. As such, falsification becomes increasingly more difficult and problematic. We often lack crucial tests, confirming facts, and the ability to offer convincing refutations of rival theories. Consequently, we may be faced with a proliferation of theories and pseudo-theories and, is often the case, left only with the "argumentative and persuasive skills of the
theoreticians" to pass judgment. If so, this seems to weaken Popper's contention that test results are the only thing we can appeal to in these matters.

The key in understanding Hayek's methodological shift to develop his views on complexity, degrees of explanation, and falsification, is to be found in his acceptance of the Popperian view of science. If one concentrates only on the different kinds of phenomena science studies, it can lead one to the view that vastly different phenomena requires radically different approaches. From here it is a short step to the conclusion that there is more than one way of doing science. Hayek, I believe, was locked into this viewpoint until Popper proposed a new task for science. Instead of arguing about different approaches or how one should investigate different phenomena, Popper shifted the issue to the evaluation of, or the testing of, theories. The vital question for scientific advancement is how well a particular theory measures up against the empirical world and whether it tells us more about a particular phenomenon than another theory. In the next section we will examine Popper's views on science and how they have altered Hayek's views on methodology.

Popper and Hayek

Hayek and Popper have been close associates and intellectual allies over the years. Both were raised and educated in Austria and both were intellectual exiles from
Central Europe during the tide of fascism and the Second World War. Their common intellectual enemies over the years have included positivism, utopian social planning, historicism, and Marxism. In addition, their respective writings show extensive cross-references to, and a great deal of admiration for, each others' work and ideas.

Karl Popper is one of the most prominent philosophers of science of our time. Among other things, he claims to have "dissolved" the problem of induction, to have challenged the tenets of logical positivism, and of expounding the principles of critical rationalism. The enterprise of science, according to Popper, is a deductive process of formulating conjectual theories which attempt to explain some phenomena in question. Once constructed, these theories are then tested against the empirical world as the scientist must mount severe attempts to falsify the theory. The successful measure of any theory, according to Popper, is not the number of confirming facts we can find for the theory but, instead, how well the theory withstands the onslaught of refutations. The best theories tend to withstand these vigorous falsifying methods, and only after such testing are we allowed to tentatively accept them. Yet acceptance must always be linked with "an eagerness to revise the theory (or even to discard the theory) if we succeed in designing a test which it cannot pass". (126:51)
The Popperian view of science is that "all laws, all theories, remain essentially tentative, or conjectual, or hypothetical, even when we feel unable to doubt them any longer". (126:51) Or as one commentator has stated, Popper has a logic of disproof, not a logic of proof. (16:14)

The following schema illustrates what Popper believes to be the method of all scientific traditions or critical studies. (128:164)

\[ P_1 \rightarrow TT \rightarrow EE (CD) \rightarrow P_2 \]

Popper feels that we always begin with a problem \((P_1)\) crying out for a solution. Men develop or construct tentative theories \((TT)\) in response to the particular problem. But since every theory will be incomplete in some way it is always necessary to be aware of their shortcomings. This is accomplished by testing the theory, and eliminating errors \((EE)\) in the theory, through a critical discussion \((CD)\) or an analysis of the tentative theory. Ideally, the best way of eliminating errors is by providing inter-subjective evidence; specifically, facts which will either falsify the tentative theory or provide tentative corroborations in support of it. In either case, new problems will always emerge \((P_2)\) which, in turn, will have to be dealt with in a like manner.

It is in the third step \((EE)\), where we are instructed to eliminate errors, that a controversy develops. Simply stated, what will count as evidence for the elimination of
errors? How are we to reveal to ourselves and others that errors taint our theories? Popper's advice is that error elimination is accomplished by testing all theories in light of empirical evidence. In other words, it is critical that we should be able to evaluate objectively the creditability of any theory. Popper strongly supports the view that all scientific or critical enterprises, ranging from physics and chemistry to biology, sociology, history, and even art, can benefit and develop by following the above schema of conjecture, critical discussion, and refutation (to be repeated ad infinitum). The key question, however, is whether all critical disciplines will be equally able to dispose of errors by testing their theories against the facts. A number of difficulties immediately arise.

First, we know that all theories are not equally expressed in testable terms. Second, different disciplines are not able to specify the crucial tests necessary for the elimination of errors. And third, even if testing is possible, it is doubtful that the results will necessarily reduce or end the fundamental disputes within a discipline. That is, even if we follow Popper's advice, much of the evidence will still remain 'soft', questionable, and subject to various interpretations.

If, following Popper, empirical evidence is the sine qua non of scientific development, we have to wonder about the 'scientific status' of much of the social sciences. To
highlight this with one example, we only have to recall von Mises' statement that the laws of praxeology are a priori, independent of empirical evidence. In fact, the entire "Austrian praxeological school with its subjectivism and rejection of testability in favor of axiomatic reasoning", seems to run against the Popperian program of "falsification and empirical content". (6:40)

The issue is whether Popper's demand for falsification (hypothetical propositions, predictions and their correspondence to the facts) can be reconciled with Hayek's support of the Austrian position; or, whether there exists an uneasy relationship between Austrian praxeology and Popper's notion of science. 1 Granted Hayek never fully embraced von Mises' strong support of a priori axiomatic reasoning. 2 And, of course, not all adherents to the Austrian position reject out of hand the role of experience in evaluating or testing the tenets of their axiomatic principles.

Norman Barry suggests that Hayek has adjusted much of his earlier Austrian views in order to move closer to the Popperian position. (6:17) However, if this is the case, what happens to Hayek's critique of the scientistic attitude and his support for the subjectivism in social science methodology? If the social sciences deal with purposive behavior and irregular and complex patterns, how is it possible for him to accept Popper's unity of science thesis?
It may be useful at this point to let Hayek speak for himself. The following comes from an early 1942 essay, "The Facts of the Social Sciences", where he expresses his views about science prior to being exposed to the work of Popper:

... I shall contend that the role of experience (in the social sciences) is fundamentally different from that which it plays in the natural sciences. I had, perhaps, better explain that I myself originally approached my subject thoroughly imbued with a belief in the universal validity of the methods of the natural sciences. Not only was my first technical training largely scientific in the narrow sense of the word but also what little training I had in philosophy or scientific method was entirely in the school of Ernst Mach and later of the logical positivists. Yet all of this had the effect only of creating an awareness, which became more and more definite as time went on, that, certainly in economics, all the people who are universally regarded as talking sense are constantly infringing the accepted canons of scientific method evolved from the practices of the natural sciences; that even the natural scientists, when they begin to discuss social phenomena, as a rule -- do the same; but that, in the not infrequent instances when a natural scientist seriously tries to apply his professional habits of thought to social problems, the result has almost invariably been disastrous -- that is, of a sort which to all professional students of these fields seems utter nonsense. But, while it is easy to show the absurdity of most attempts to make the social sciences 'scientific', it is much less easy to put up a convincing defense of our own methods, which, though satisfying to most people in particular applications, are, if looked at with a critical eye, suspiciously similar to what is popularly known as 'medieval scholasticism'. (IEO:57-58)

The 'disastrous' results of trying to use the program as outlined by Mach and the logical positivists produced in Hayek a hostility towards the methods of the natural science, support for methodological dualism, and his coining
of the pejorative term 'scientism'. With this background, Hayek came to support the methodological program of individualism and subjectivism for the social sciences.

Yet it was Popper's work on the logic of scientific discovery which altered Hayek's views. Popper exploded much of the myth about science being an inductionist enterprise and, in so doing, he opened up the possibility of a different sort of unified method. In a prefatory note to a collection of essays written in the 1950's and 1960's, Hayek acknowledges his debt to Popper on this score.

Readers of some of my earlier writings may notice a slight change in the tone of my discussion of the attitude which I then called 'scientism'. The reason for this is that Sir Karl Popper has taught me that natural scientists did not really do what most of them told us that they did but also urged the representatives of other disciplines to imitate. The differences between the two groups of disciplines has thereby been greatly narrowed and I keep up the argument only because so many social scientists are still trying to imitate what they wrongly believed to be the methods of the natural sciences. (SPPE:vii) (Emphasis Added)

We have therefore witnessed a change in the usage of the term 'scientism', from that of "the slavish imitation of the methods and language of the natural sciences" to a name "for the imitation of what certain people mistake for the method and language of science". (123:105N) By rejecting the inductivist interpretation of science, and replacing it with "an interpretation of scientific method as deductive, hypothetical, (and) selective by way of falsification", Popper, and now apparently Hayek, supports the unity of
method thesis. Popper returns the favor by stating that Hayek's description of the method of the social sciences "agrees perfectly" with his own methodological description of science. (123:137)

Popper takes two arguments which are used to support methodological dualism to show that they do not violate his notion of methodological unity. First, there is the subjectivist argument which states that the social sciences formulate their theories or hypotheses not by objective or empirical means but by empathic understanding. Popper does not object to this method, and he even agrees that it allows us a more direct knowledge of ourselves. The issue for Popper is not how we come to develop our theories, but that once stated, we agree on the proper way of testing them for their validity. (123:138) While social or economic theories may not generate many, if any, positive predictions of future events, Popper claims that they do allow us to specify factual situations which, if they occurred, would force us to give up or to revise the theory in question. Or, as Hayek would say, we may be limited in our ability to use the theory to "predict precise outcomes of a particular situation" yet our theories can "be disproved by the observation of events which according to (our) theories are impossible". (CRS:72-73)
The second argument concerns the complexity of social phenomena and our inability to offer more than explanatory sketches. Hayek, we will remember, doubts that detailed explanations are possible in the social sciences and we often must accept "explanations of the principle" as the best we can do. As a consequence, the theories developed by social scientists seldom allow us, in Hayek's words to predict the precise results of any concrete situation ... (yet) we can explain the principle on which certain phenomena are produced and can from this knowledge exclude the possibility of certain results, e.g., of certain events occurring together; our knowledge in this sense will be only negative. (CRS:74)

In Hayek's thinking, social explanations, though not of great detail, can still be tested because actual results or events can be measured against the prohibitions set forth in the explanatory principle.

Popper feels that this situation is not "peculiar to the social science" and, in spite of what we have come to believe about the "preciseness of predictions" in the physical world, "the same may be said of the concrete physical world". (123:139) That is, they also tend to work with explanatory principles and negative predictions. Popper argues that science, including the social sciences, should be a deductive enterprise following the principles of rational criticism. He tells us that
Rational criticism takes the form of an attempt to show that unacceptable conclusions can be derived from the assertion we are trying to criticize. If we are successful in deriving, logically, unacceptable conclusions from an assertion, then the assertion may be taken to be refuted. (129:99)

The form that this process most often takes in social inquiry is situational logic. Social scientists typically try to explain the actions of individuals as they respond to various types of problem situations individuals find themselves in. We come to "understand" or to "make sense" of their actions because, as Hayek states, we can logically derive from "our minds, in a 'deductive' or 'analytical' fashion, an exhaustive classification of all the possible forms of intelligible behavior". (IEO:67-68) We try to make the action intelligible by analyzing "the social situation of acting men sufficiently to explain the action with the help of the situation, without any further help from psychology." (129:102) We come to recognize the logic of a particular action simply because we can "see" or "understand" the reasons for the behavior. In addition, Popper claims, "situation analysis is rational, empirically criticizable, and capable of improvement". (129:103)

For example, why a person prefers coffee to tea is of little interest to the social scientist. But when individuals express their preference for coffee in the social situation of the market they begin to take interest. If bad weather reduces the size of the coffee crop, producing a
major shortage and a corresponding rise in the price of coffee, we can logically deduce "an exhaustive classification of all the possible forms of intelligible behavior." Consumers may buy less coffee or less expensive substitutes or cut back in other areas (e.g., entertainment) so as to maintain their present level of coffee consumption. Obviously, not everyone will act according to the same logic since each individual will manifest a different response based on personal tastes and their own personal analysis of the new situation. The point is that we can fully understand why person (P), in situation (S), having (G) as an end goal, and believing that strategy X (SX) will produce a particular goal, acted in a certain way. Of equal interest will be how this change in coffee consumption will, for example, change the price of tea. If in the short-run the cost of tea also sky-rockets due to the aggregate demand for this coffee substitute, then the consumer may again be placed in a new situation of reordering priorities and changing his or her behavior once again.

Situational analysis follows Popper's problem-solving schema of conjecture and refutation because we can interpret human action as an attempt to solve a problem (multiple ends, limited means). We can evaluate any action "logically" by judging if the action makes sense given the goals and the situation of a particular individual. Yet testing the assertions of situational analysis (i.e., to indicate
when it leads to "unacceptable conclusions") is problematic. Both Popper and Hayek agree that "some theories expose themselves to possible refutation more boldly than others" (126:256); and that "there will be well-testable theories, hardly testable theories, and non-testable theories". (126:257) These possibilities suggest a range of testable theories from physics and chemistry at one end, to theories of art and literature at the other extreme. (126:25) Implied is the notion that somewhere in the middle of the range, and hopefully closer to the "testable end", we can find the theories developed by social scientists. In this sense, we could speak of "degrees of falsification" and "degrees of testability" when we attempt to refute theories. Hence, while all theories must submit to the dictates of critical rationalism, the process itself does not necessarily give us a clear-cut way of distinguishing better theories from worse theories.

Hayek, probably more than Popper, is aware of the difficulties involved in testing and falsifying social theories. He writes:

Because such theories are difficult to disprove, the elimination of inferior rival theories will be a slow affair, bound up closely with the argumentative skill and persuasiveness of those who employ them. There can be no crucial experiments which decide between them. There will be opportunities for grave abuses: possibilities for pretentious, over-elaborate theories which no simple test but only the good sense of those equally competent in the field can refute. ... it does not help to hold up against this the example of other sciences where
the situation is different. It is not a failure to follow better counsel, but because of the refractory nature of certain subjects that these difficulties arise. (SPPE:19)

With no "simple tests" or "crucial experiments" to refute rival theories, Hayek acknowledges the difficulty, but not the impossibility, of following Popper's methodological program. Again, the difficulty stems from the "refractory nature" of the complex social sciences and not because they represent a different kind of study or because better advice went unheeded. While Hayek still worries about "the misguided and erroneous methodological approach of naturalism or scientism which urges ... the social sciences" to copy the methods wrongly thought to be those of natural science, he now fully accepts a unified approach. (129:90)

Finally, we need to ask whether there is any reason to think that Hayek's acceptance of Popper's views are incompatible with the position he has taken on human knowledge. The answer, I think, is no. Even though some members of the Austrian School support methodological dualism and reject Popper's views on testability, the key component of subjectivism or "understanding" need not be given up. It is not how one develops a theory, but how one attempts to defend and support it which is critical for Popper. This point was not clear to many Austrians, like von Mises, who rejected the idea of falsification for the social sciences.
To Hayek's credit, he realized that subjectivism could be retained in developing theories, but he also knew that it was untenable to simply claim them as being self-evident. Yet, this does not require one to become a pure empiricist, or to copy the exact methods of the natural sciences.

Hayek's theory of phenomenal complexity declares that as complexity increases there is a corresponding decrease in our ability to identify, measure, and sort out, the connections between variables. This condition is simply a reflection of the difficulty we run into when we attempt to analyze complex social phenomena. What makes them more complex, less quantifiable, and more difficult to test, is the nature of social knowledge. Methodological problems arise because the patterns of social phenomena are exceedingly complex. In part, this is due to the nature of social knowledge; it is limited, fragmented, and of a refractory character. Is is the nature of the phenomena, and not necessarily the nature of the method, which produces this impasse.

Hayek has been consistent all along about maintaining that social phenomena are complex, difficult to study, and difficult to understand. By accepting Popper's views, it cannot be said that he has abandoned certain key elements (Austrian methodology) vital to the positions he wishes to hold on to in other dimensions. More correctly he has taken
the strength of the Austrian approach (individualism and subjectivism) and has cast-off its major weakness, namely, their refusal to test their theories.

Yet many social scientists are still wedded to naturalism and the desire to apply what they take to be the methods of physics to social inquiry. Having said this, we turn to the economic dimension of Hayek's thought to analyze the impact that he feels scientism has had on economic thinking.
1. In Hayek's Social and Economic Philosophy Norman Barry argues that Hayek's Austrian views and Popper's views of science are basically incompatible. In a more recent article, however, he has backed away from this position. He now concludes that Hayek's subjectivism is compatible with the Popperian view of science, although the extreme a priorism held by some Austrians clearly is not. See Chapter Two in Hayek's Social and Economic Philosophy and his "Restating the Liberal Order: Hayek's Philosophical Economics" in Twelve Contemporary Economists Ed. by J. R. Shackleton and Gareth Locksley (NY: John Wiley and Sons) 1981; pp. 87-107.

2. Hayek states that von Mises' strict a priorism was never totally acceptable to him. He writes that "It is the obscuring of the empirical fact of people learning what others do by a process of communication of knowledge which has always made me reluctant to accept von Mises' claim of an a priori character of the whole of economic theory, although I agree with him that much of it consists in merely working out the logical implications of certain initial facts." (CI:20-21)
"It is quite possible to ruin an economic system because economists have wrong ideas about the proper way of approaching scientific problems"

-- F. A. Hayek

In viewing Hayek's impact on economic thought we can identify at least three major controversies or episodes in intellectual thinking, namely, the neoclassical developments starting in the 1870's, the battle with Keynesians with the publication of The General Theory, and the so-called "socialist calculation debate" of the 1920's and 1930's. All three involve major questions of methodology and have served as the impetus for Hayek's interest in political thought and public policy issues. And again, all three underscore Hayek's contention that the scientistic attitude has given economists the "wrong ideas" about how to understand and deal with various economic problems. As we shall see, Hayek maintains that economic problems are best solved or handled by the spontaneous market order.

Many, however, are less sanguine about the market order finding it inherently unstable and prone to alternating periods of busts and booms. They find the market system wasteful, chaotic, and indifferent to human needs. Broadly speaking, critics of the market advocate greater rational or
scientific control over economic forces to help ameliorate these shortcomings. Some argue for the complete overhaul of market capitalism wishing to replace it with a system of comprehensive economic planning. Others prefer to maintain some aspects of the market system but hope to regulate, rationalize, or guide it through a mixture of monetary and fiscal policies. But whether one supports a program of full socialism or some form of a mixed economy, Hayek feels that all such moves to control economic life are methodologically unsound from an economic point of view. He uses his theory about social knowledge to support his position that the market process is superior to a process of human regulation.

The Marginalist Revolution

In the 1870's the "marginalist revolution" toppled the classical school from its place of prominence. The classical tradition most closely associated with Adam Smith, David Ricardo, J. S. Mill, and even Karl Marx, argued for, among other things, an objective labor theory of value. A labor theory of value, it is said, "emphasizes the quantative importance of labor units and in particular their strategic role in bringing about changes in relative prices over time." (16:119) Ricardo's position was that "labor is the best measure of value, labor is the 'cause' and 'substance', labor is the original purchase price of everything." (16:120) One reason that encouraged this line of thought
was their obvious attempt to emulate the mathematical certainty of the natural sciences. J. S. Mill was so convinced that the labor theory of value was on firm ground that he wrote in his 1848 edition of *The Principles of Political Economy* that:

> Happily, there is nothing in the laws of value which remains for the present or any future writer to clear up; the theory of the subject is complete. (86:458)

Yet by the 1970's the anomalies of the classical position could no longer be ignored or propped up by ad hoc adjustments. In a sense a revolution in economic thought occurred as the marginalists began to view "value" from a subjective point of view. They explained value as constituting the relationship between an "appraising mind and the object appraised, a manifestation of (a) mental activity". (87:156) In other words, "the decisive factor might be something discoverable not in the object itself but rather in the relations of men to the object". (86:458)

The determination of value in a market system was seen as the utility or the comparative usefulness that a particular good or service might have for an individual in light of its availability and desirability. In an on-going process, all individuals pursue a multitude of competing and diverse ends, but are always faced with a limited ability (scarce means) to satisfy those ends. The marginalists saw the "unlimited ends-limited means" problem as the heart of
economic analysis. It is an analysis which ultimately hinges on the subjective nature of human preferences and choice.

The preferences or the demands that individuals possess are highly diverse and are inherently unstable. As time passes and conditions change so too will the preferences of individuals. (37:151) The determination of value is an ongoing process, originating in the minds of various individuals, each having different needs, wants, expectations, and abilities to match-up preferred ends with available resources. Different individuals in the same situation, as well as the same individual at different points in time, will indicate a wide variety of choices. This can only be traced back to the subjective and personalized evaluations and experiences each individual carries into the marketplace.

In any event, there is a clear recognition that the needs, and the power to satisfy those needs, vary greatly from individual to individual. Consequently, with the recognition of a "heterogeneity of needs, it is highly improbable that the same good will be given the same appraisal by different economic agents". (87:61)

To summarize, the marginalist revolution overturned the cost of production view of value and, in its place, concentrated on the demands of individual consumers. They speak not simply of 'utility', but of the 'marginal utility' of demand in the sense that we are never confronted with a
situation of either "diamonds or water", but instead with choices involving trade-offs at the 'margin'. Prices are determined by the interaction of competitors and their willingness to pay an additional amount for one additional unit of utility; or to the point where the cost of one additional unit will bring no further satisfaction vis-a-vis another unit. When this point is reached (satiation) the consumer will begin to redirect his resources to other goods or services so as to maximize his satisfaction with marginal increases of them.

The above stands as a basic description of the new perspective systematically pursued by the marginal theorists. This theoretical development is usually attributed to the independent, although contemporaneous, work of three economists in the 1870's, namely, W. S. Jevons, Leon Walras, and Carl Menger. While all three hammered out the place of consumer valuation in economic activity, they, or their disciples, soon parted company as they pursued different avenues within neo-classicalism. The eventual split developed around whether one more systematically applied the 'marginalist' viewpoint to economic analysis or, on the other hand, the "subjectivist" concept of utility. The subjectivists rallied around Carl Menger and the Austrian School, whereas the majority of the neo-classicalists went on to elaborate the principles of equilibrium theory.
The core of equilibrium analysis centers around the view that consumers and producers are maximizing agents and that under certain conditions, "an equilibrium will be reached between amounts demanded and supplied in every product and factor market of the economy". (87:3) Paralleling to some extent the English utilitarian program, they assumed universal knowledge of all market conditions and that all 'tastes' are 'given' in the form of utility functions or indifference curves. The effect was to down-play the subjective component in order to accommodate a more formal, mathematical-functionalist approach. Lachmann depicts their methodological program in the following fashion. In static equilibrium theory he writes:

individuals were viewed, not as actors pursuing ends susceptible to alteration and adjustments, but as pegs on which static indifference curves could be hung. The meaning of the acts to the actors was disregarded in the methodology of the Lausanne School. Rather it was the desire to reduce economics to an 'exact' science that led Walrus and later Pareto to adopt the quantitative and graphical methods of physical science in presenting the basic insight of marginalism. When subjective notions did enter the analysis of the Lausanne School, it was in the form of 'tastes' that were regarded as basic and immutable. (87:5)

Austrians, like Lachmann, condemn the majority of neoclassicalists for backsliding into objectivism. Smitten by the force of naturalism, many of them began to pursue mathematical or quantitative approaches thought by the Austrians to
be based on faulty assumptions about human knowledge. In addition, they relegated subjectivism to a very minor role in their analysis.

By contrast, the Austrians based their analysis around understanding the purposive actions of human beings, and assumed the economic world to be characterized by uncertainty and disequilibrium. Consequently, they were suspicious of attempts to turn economics into a mathematical discipline since such efforts "describe only a hypothetical and unrealizable state of affairs." (115:69) Similarly, Hayek voices his disapproval of the pseudo-scientific tendencies associated with such approaches:

Any approach, such as that of much of mathematical economics with its simultaneous equations, which in effect starts from the assumption that people's knowledge corresponds with objective facts of the situation, systematically leaves out what is our main task to explain. (15:70)

For the Austrians the task of economics is to understand the behavior of individuals pursuing their respective plans and to trace how dispersed, fragmentary knowledge is acquired by economic agents. (6:44) While many economists developed explanatory models based on a static world and omnipotent actors, the Austrians emphasized a dynamic world composed of actors with imperfect knowledge. Members of the Austrian School felt that many economists pursued the designs laid out by general equilibrium theory because it lent itself to statistical analysis, measurable magnitudes,
and quantitative calculus. They were highly suspicious of those wishing to turn economic reasoning into a discipline that "uses the methodology of the natural sciences." (87:16)

The core principles of the Austrian brand of economic thinking can be summarized by the following postulates (87:16):

1) An absolute insistence on methodological individualism as an a priori heuristic principle.

2) A deep suspicion of all macroeconomic aggregates such as national income or an index of prices in general.

3) A firm disavowal of quantitative testing of economic predictions and, in particular, the categorical rejections of anything that smacks of mathematical economics and econometrics.

4) The belief that more is to be learned by studying how market processes converge on equilibrium than analyzing as most economists do, the properties of final equilibrium states.

Israel Kirzner describes the members of the Austrian School as:

... subjectivists; they emphasize the purposefulness of human action; they are unhappy with constructions that emphasize equilibrium to the exclusion of market processes; they are deeply suspicious of attempts to apply measurement procedures to economics; they are sceptical of empirical 'proofs' of economic theorems and consequently have serious reservations about the validity and importance of a good deal of empirical work being carried on in the economics profession today. (16:93n)

Probably the best statement of the Austrian position is given by Menger in the following description of price formation:
The final determinant of all price is the valuation of goods by ultimate consumers; consumers themselves value goods in accordance with the importance of those goods for the satisfaction of their wants; and this valuation in turn depends on the degree of satiation. (72:227) (emphasis added)

Within this short statement we find the main components of the Austrian approach, i.e., subjectivism ("valuation"), methodological individualism ("ultimate consumers") and marginalism ("degree of satiation"). Along with Menger's insistence on the importance of the dynamic nature of economic phenomena, we have the core elements of the Austrian approach. But, exactly how do they apply these principles in their analysis of economic life?

By this time we know that economics deals with questions of scarce means, multiple ends. We assume that once ends are selected, and plans of action devised, the agent will attempt to use the plan to guide his actions. Therefore, we begin to explain "human action in terms of plans, constituted by mental acts ... linking an imagined future to an active present". (107:153)

We also know that individuals differ in their hopes, expectations, goals, purposes, and talents so we can assume that the evaluations of different actors will produce a diversity of behaviors. Even if some individuals were to set out with similar plans, the real world of uncertainty, limited foresight, new information (and misinformation), and individualized experiences, would result in many divergent
paths and actions. The inevitable fact that men construct plans, only to be soon disappointed by the changing world, forces them to revise their plans daily. Or as one member of the School explains:

Because change is ever present and unpredictable, individuals have different expectations about the character and extent of change. It is this factor ... that precludes anything approaching a macro-economic general equilibrium in the uncertain world of market activity. (87:20)

The 'time' component, often ignored by equilibrium theories, imposes a never ending influx of new knowledge, (and the elimination of old knowledge) making a strictly empirical approach impossible in practice. Instead, economic analysis "requires constant reference to the plans, preferences, values, and expectations of acting individuals." (87:16) We can explain the various actions of individuals by interpreting them in light of typical courses of actions which would allow the actor the possibility of reaching his preferred end goal or goals.

The import of the Austrian aversion to quantative or mathematical economics, which in their view has overtaken the profession, is that it leads to an inflated sense of what economists can know and do in economic analysis. They feel that the discipline has copied the methods of natural sciences with hopes of improving their ability "to predict the out-come of economic activity"; and eventually the direct control of economic activity. (87:16) This "fear"
turned into a reality for them with the development of
economic planning under the influence of J. M. Keynes.
The Keynesian episode, in Hayek's view, represents a classic
example of how the "wrong ideas" about economic analysis can
unleash the desire to manage economic affairs.

The Keynesian Episode

The Keynesian revolution was a tour de force in economic theory and practice. Since the 1930's Keynesianism has become a leading paradigm in the discipline and has proved extremely popular with politicians of all stripes. Up until the 1970's its track record was relatively successful in promoting economic growth with low levels of unemployment. Hayek has always been one of the most outspoken critics of Keynesianism and the interventionist policies it espouses. In recalling the Keynesian victory he wrote:

The General Theory of 1936 ... conquered most of the professional opinion. (As a result) I largely withdrew from the debate, since to proclaim my dissent from the near-unanimous views of the orthodox phalanx would merely have deprived me of a hearing on other matters. (NS:219)

In essence, the Keynesian episode represented for Hayek a regression in economic theory. The ideas of Lord Keynes and his followers, while persuasive, were for Hayek clearly mistaken, calling them "quack remedies" and the policies of "desperado economists". (NS:220-221) We must note that his account of the Keynesian victory is greatly exaggerated and
we can see a bit of paranoia on his part concerning the so-called "phalanx" in the discipline. Yet today there is a somewhat smug attitude on Hayek's part as the Keynesian consensus is apparently disintegrating on the spike of stagflation. But our present concern is with the methodological problems associated with the Keynesian approach as interpreted by Hayek.

Historically, according to Hayek, economic theory has taken two paths since the 1870's. Simply stated, one pursued a micro-individualistic approach, the other a mathematical-functionalist approach stressing macro-concepts. According to Hayek and other proponents of the microeconomic focus, scientism and rationalistic-constructionist attitudes swayed many economists to pursue the old dream of creating a science of economics by paralleling the methods of the physical sciences. As stated earlier, "it was the desire to reduce economics to an 'exact' science that led (many economists) ... to adopt the quantitative and graphical methods of the physical sciences". (87:5) Therefore, by the time of the Keynesian revolution, a major coup had already occurred in economic theory as, in the words of Ludwig Lachmann, "macro-entities ... replaced the actions of individuals" and "subjectivism and individual causation had been superceded by functional relations among objectified aggregates". (87:13)
As nation-states and economic bureaus and institutes collected more and more statistical information, the next "logical" step was to develop theories (and consequently policy recommendations) based on the empirical relationships which apparently exist between various quantitative measurements. The inclination to think in aggregates, Hayek argues, fostered a belief:

That there exists relatively simple and constant functional relationships between such 'measurable' aggregates as total demand, investment or output, and that empirically estimated values of these presumed constants would enable us to make valid predictions. (NS:285)

Again, with the model of natural science before them, economists wished to devise scientific theories capable of predictions. Micro-theory with its 'limited' predictive power was consigned to secondary importance in favor of macroeconomics replete with statistical information and quantitative magnitudes all deemed to be the requisites for predictive prowess. Surely, it was thought, once enough data had been collected, the empirical patterns or relationships would reveal themselves. Once recognized, we could begin the formulation of empirical laws underlying economic phenomena. At this point the stage was set for Keynes and his policy recommendations.

Prior to the Great Depression most Western governments followed a non-interventionist policy or at most a limited monetary policy of currency maintenance. Fiscal policies of
taxing and spending to control the business cycle were yet largely unknown. But as the magnitude of the world-wide depression grew in the 1930's, and as political pressures to act developed, the traditional non-interventionist policy (as supported by the Austrians and those associated with the London School of Economics) became politically unacceptable. Hayek's own view was that governmental policies had been responsible for the depression and if governments kept their hands off a "recovery would come from the normal process of adjustment in the marketplace." (6:154)

In the midst of the crisis Hayek and his friends at the L.S.E. were challenged by a group of economists at Cambridge dominated by the imposing intellectual mind of J. M. Keynes. Under the influence of Keynes they developed, for that time, a set of "radical theories of active government involvement in the form of contra-cyclical economic policies." (6:155) Keynes argued that unemployment was largely due to an insufficiency of aggregate demand and could be cured by an increase of that demand. (NS:194) Or put another way, resources including labor, were under-utilized due to basic under-consumption. Theoretically, the government could stimulate consumer demand by direct monetary methods and, in turn, create higher levels of employment. This line of argument contradicted the Austrian view which held that the
depression was not caused by under-consumption, or the lack of effective demand, "but the very reverse, over-consumption". (6:166)

As we know, the Keynesian viewpoint was eventually victorious, and the result was an ever-increasing role for government in using its fiscal powers to stimulate aggregate demand and economic growth. In the years following World War II, Western prosperity was in part attributed to the application of Keynesian policies. High levels of employment, impressive growth rates, and the belief that the business cycle could be tamed, gave credence to Keynes' ideas. But if Keynes and his followers were wrong in their approach to economic issues, how do we account for their apparent successes?

According to Hayek's interpretation of the past forty years the Keynesian strategy had one catch, namely, the mechanism to stimulate investment and production is induced inflation brought about by governmental spending. Theoretically, a government would for a short period pump money into the economy to unleash consumer demand for goods and services. This would stimulate investment and production creating more jobs as business picked up. Once out of the economic down-swing, the government should reverse itself by easing up on the monetary pedal (i.e., less spending and/or higher taxes) returning to a policy of fiscal restraint. The Keynesian formula was relatively simple: in a recession
the government should increase its expenditures and cut taxes; in expansionary periods taxes should be raised and spending cut. The task for the economist is twofold. First, he must be able to identify what phase of the business cycle the economy is in; and second, he has to devise the proper mixture and magnitude of monetary and fiscal measures required at the appropriate times.

Whether or not economists have the ability to "fine-tune" a national economy is still a matter of debate. Of greater importance to Hayek are the political pressures which have caused governments to maintain inflationary policies for extended periods. Many economists and their political allies have been willing to accept a "small" amount of inflation with the understanding that the "cost" is not high vis-a-vis the benefits of full employment and higher standards of living. After all, it is certainly better to have a job and suffer a bit of inflationary pressures than to ride the unpredictable roller-coaster of the capitalistic business cycle. To wait for the economy to recover "in the long run" was not acceptable to Keynes. Policies must be adopted which will help ease man's suffering in the here and now since, as he was fond of saying, in the long-run we all shall be dead.

In desperate times, admittedly, desperate measures may be necessary. Why not accept some short-terms costs (inflation and deficits) for long-term benefits? (stability and
employment). It is precisely over this point that Hayek attacks the Keynesian proposals. The Keynesian diagnosis, Hayek claims, hinges on the belief that "all important unemployment is due to an insufficiency of aggregate demand and can be cured by an increase of that demand." (NS:194) Hayek concedes that some unemployment is due to insufficient demand, and that an increase in aggregate demand "will in most circumstances lead to a temporary increase of employment;" but to follow such a policy for prolonged periods will not maintain full employment. Instead, it will produce higher levels of inflation and great distortions in the labor market. (NS:194) Hence, in a period of severe economic crisis a policy of spending, as advocated by Keynes, would produce some positive results in reducing the level of unemployment. But government backed employment policies can not maintain full employment in the long-run without eventually creating other serious by-products; a case in point the stagflation of the 1970's. Consequently, Hayek prefers to call Keynes' proposals not a 'general' theory but simply a "tract for the times." (NS:284)

Hayek's views about unemployment, its causes and the cure, differ widely from the Keynesian perspective. The major point of contention centers around the faith or the lack of faith which each man places in the market process. Hayek's own "a priori faith in the self-adjusting properties
of the market" to create jobs conflicted with Keynes' equally strong lack of faith in (or as Hayek would say, his lack of understanding of) the market process. (6:174)

According to the Hayekian view, unemployment is caused by a "discrepancy between the distribution of labour (and other factors of production) and the distribution of demand among their products." He goes on to state that:

This discrepancy is caused by a distortion of the system of relative wages and prices and can be corrected only by a change in these relations, i.e., by the establishment of such relative prices and wages that in each sector of the economy supply will equal demand. (NS:200-201)

Or put another way, "the amount of workers from the jobs where there is an excess supply to those where there is a shortage" must be allowed for "a continuous adjustment of the various kinds of labor to the changing demand." This requires "a real labor market in which the wages of the different kinds of labor are determined by demand and supply". (NS:195) There will always be jobs for workers seeking employment if wages are not held rigidly inflexible. Once wage rates fail to respond to the forces of supply and demand, employers are encouraged to cut their labor costs by employing a different mixture of the forces of production (the Ricardo effect). The result is an increase in unemployment. (NS:165)
According to Hayek the Keynesian approach of using monetary and fiscal policies to stimulate the economy creates the following problems:

1) It disrupts the market process of shifting labor where it is most effectively used and needed.

2) It leads to the erroneous methodological conclusion that macro-economic variables are all important instead of relative wages and prices found in different industries. If all sectors of an economy are idle an increase in the money supply will produce gains (i.e., jobs) in many areas. But when the various sectors are treated with a heavy-handed macro-analysis, the approach proves to be insensitive to the different conditions in each industry.

3) An inflationary policy by the government, along with the inflexibility of wages (backed by unions and the government) eventually produces a misdirection of resources. That is, jobs will be created and maintained in areas where the forces of the market would not have maintained such jobs.

4) By accepting moderate inflation as a small price to pay for full employment (that it is not only innocuous to do so, but also meritorious to do so); we will eventually produce an economic system which has a "distorted (and) lopsided character", and which "sooner or later ... a more extensive unemployment (will be) the result". (NS:192) The full employment policies, artificially supported by governmental spending, work by drawing more and more workers into kinds of jobs which depends on continuous spending and, hence, accelerated levels of inflation.

5) The result is 'stagflation', a state "in which the accepted rate of inflation no longer suffices to produce satisfactory employment". (NS:193) Accelerating inflation will lead to a complete "disorganization of all economic activity".

6) The cause, as well as the general inability to stabilize the Western economies, is largely political. Politicians have promised to stop inflation (or to maintain low levels of inflation) and to preserve full employment through governmental action. Hayek rejects this tactic and maintains that "the
longer they succeed in keeping up with employment by continuing inflation, the greater will be the unemployment when inflation finally comes to the ends.\textsuperscript{(NS:193)}

The result of applying "small" doses of inflation over the years to keep the full employment promises of politicians creditable comes at a cost. With stagflation the "impossible" has happened, that is, high rates of inflation and unemployment. Guaranteed governmental spending in certain industries, along with the political power of labor unions, has produced a situation where wages and employment levels are, in many cases, held above the equilibrium price and the market demand for labor. Hayek claims that the inflationary spiral and high unemployment rates will continue unabated until wage flexibility and the free movement of labor is restored. Unfortunately, he feels that the "principles of politics" and special interests have been allowed to predominate over the "principles of economics". In other words, for politically expedient reasons we have been supporting policies of creating and maintaining jobs, in unproductive industries, at high costs, which never would have been created or maintained by the market mechanism.

Of course, not everyone accepts this explanation for our current economic problems. But if we accept Hayek's analysis we have, in his view, three possible options. First, we can continue our present inflationary policies, and the economic distortions they create, only to postpone
the inevitable day of reckoning with a severe economic crisis. Second, we can impose an extensive system of wage and price controls, which in Hayek's view, will inexorably move us closer to a centrally directed and totalitarian economic order. Or third, we might make a determined effort to end the cancerous increase in the money supply.

The last choice involves giving up the full employment policies held over the past forty years, with a return to a "properly functioning market which, by the free play of prices and wages, secures in each sector a correspondence of supply and demand". (NS:207) Of course, to do this would create massive levels of unemployment as the labor market readjusts itself to various market forces. The benefit of following such a program, if it can be labelled as such, is that Hayek feels we will avoid a far worse crisis in the political arena down the road (NS:205).

He also offers two other recommendations to help us in the current crisis brought about by Keynesian economics. First, a return to an international gold system; and second, some means "to protect money from politics". (NS:224) Both propositions are meant to be ways of safe-guarding the value of money from government monopolists who debase the currency. He goes beyond Milton Friedman's suggestion that we should restrict the growth in the money supply to a fixed annual rate by arguing that the state's exclusive right to
issue money should be eliminated. Instead of government monopolies in money, there should be a free international market in currencies which, he feels, would force all serious parties issuing money to have a commitment to keeping its value stable. (Good money would drive out the bad.) (NS:218-229) While such proposals seem dubious or unrealistic, we should not miss Hayek's point: "Money is certainly too dangerous an instrument to leave to the fortuitous expediency of politicians -- or it seems, economists." (NS:224)

The Keynesian trend in modern economic policy, Hayek feels, has more to do with political and methodological reasons than it does with sound or proven victories in economic theory. In the political realm it has offered a solution, albeit in Hayek's view a temporary one, to the problems of unemployment. Politicians have been able to promise jobs at the 'marginal' cost of moderate inflation without having to deal with the long term consequences of these 'innocuous' policies. For the economist, the switch to macroeconomics gives the appearance of establishing an exact science of economics with all the glorified trappings of quantitative measurement, formal equations, and policy recommendations. To Hayek, the Keynesian 'theory' was declared victorious because it was "comparatively best confirmed by statistics (and) because it (was) the only (theory) which (could) be tested statistically." (NS:200)
Yet in spite of its "statistical" victory, Hayek maintains that the Keynesian analysis is simply false. Henry Hazlitt supports Hayek's view in saying that:

The Keynesian bible contains not a single important doctrine that is both true and original. What is original in (The General Theory) is not true; and what is true is not original. (1)

Hayek's account of Keynesianism, its history and its ideas, is distorted in many ways. In its most basic form, Keynes' goal for government intervention during slumps was to stimulate the economy (to put idle resources to work) when the private sector was cutting back, in effect, prolonging the recovery. In times when it is illogical for the individual to act, it may require the state to step in to prime-the-pump. Countercyclical policies may not allow us to fine tune the economy as we may wish; they can, however, help us to avoid the most extreme swings in the business cycle. In addition, if inflation is an unwanted culprit, (e.g., when it turns into hyperinflation) it may still be preferred to massive employment and political instability. In this sense, Keynesianism may be a blessing for the capitalist system on the precipice of collapse. Hayek is clearly wrong in thinking that Keynes was intent on destroying capitalism. Actually, he was saving it through the moderate use of governmental spending and taxing powers. Keynes was simply coming to terms with the reality that in advanced industrialized societies free markets neither exist
or are desirable. Some form of economic management had to be developed, not to perfect life, but to make it more palatable to the exigencies of a democratic polity.

Finally, Hayek's attempt to blame the economic crisis of the 1970's on Keynesian policies is blatantly simplistic. Many other factors, the most obvious the rising cost of oil, have to be included in any explanation of the economic downturn witnessed in recent years. One gets the feeling that Hayek has been waiting forty years for this slump to discredit Keynes. Hayek's reaction has been to link a policy he disagrees with to a particularly bad condition, when the two may not be connected in any definite fashion. In this case Hayek shows himself to be more of a partisan ideologue than a reflective economist.

But if Hayek and others of his persuasion feel that they have not fared so well in their battle with the "phalanx of Keynesians," they do feel that they scored rather well in their theoretical confrontations with socialist planners. It is to this confrontation we now turn.

The Socialist Calculation Debate

In the 1920's and the 1930's the world of economic theory was involved in a quite spirited debate concerning socialistic economic planning. Known as the 'Socialist Calculation Debate', many well known economists heatedly debated whether a socialist economic system was, first, a
real possibility and, second, whether it could replace the market system in terms of economic rationality. Some of the major proponents of socialist planning included Oskar Lange, Fred Taylor, Benjamin Lippincott, H. D. Dickenson, A. P. Lerner and M. H. Dobb. They squared off against the triumvirate of von Mises, Hayek and Lionel Robbins, who held that rational economic calculation could only occur in a free market system; or at least that the market system was much more efficient economically than a system based on socialist production principles. The proponents of planning during the debate buttressed their arguments by applying some of the economic principles developed by the neoclassical school which ostensibly gave support to the feasibility of a centralized economy. For example, the Walrasian auctioneer became the central planning board; various mathematical models gave hope to the possibility of using a set of simultaneous equations to simulate the market process; and the notion that resources could be efficiently allocated minus the profit motive or private property, were used by the socialists to support their position. (89:Passim)

Hayek traces the appeal of planning and economic control back to the attitude of constructionistic rationality. One of its central tenets is the firm belief that mankind is capable of ordering his environment to produce a variety of consciously chosen ends. Again, Hayek tells us, many people assume that we can understand and control our social world
much like we do the natural order. In the present case, this methodological mistake is repeated by socialists wishing to regulate the economy for humanistic purposes.

In addition, many socialists believe that the conscious regulation of social and economic affairs must necessarily be more successful than the haphazard operation of a market system. Rational planning, it is thought, should replace the chaos, the waste, the inequities, the exploitation, and the social neglect associated with capitalism. (CH:Passim) Advocates of socialism contend that economic planning would necessarily increase productivity, result in production for real social needs, eliminate poverty, and redistribute the collective wealth in a just fashion. Hayek will make the opposite claim, namely, that capitalism holds the best promise for improving mankind's condition and that socialism is both morally and economically indefensible. Our present concern, however, deals with whether social planning is a rational economic alternative to capitalism.

Exactly how a socialist economic system is supposed to work was largely ignored by its supporters until the 1920's. Much of this can be attributed to orthodox Marxists who scorned what they described as the harebrained blueprints devised by the utopian socialists and, following Marx, voiced their reluctance to speculate about what would replace the market system. Engels apparently thought that the planning of a socialist economy would be a simple task.
Prices, he claimed, would be determined by the number of labor hours embodied in the production of a good. Society would simply know "the quantities of labour required for their production" and would allocate labor and other materials in accordance with the desired output. "People", Engels stated, "will be able to manage everything very simply". (89:12)

Exactly who these 'people' would be remains somewhat of a mystery, but it has been assumed that under a socialist system a centralized planning board (CPB) or a board of directors would help devise the social plan and see to its implementation. Production would be organized and directed to meet predetermined goals much like an engineer might plan to build a physical structure. To the constructionistic rationalist it would be a simple "social" engineering problem. Just as an engineer might build a bridge, an economic planner would be capable of mobilizing resources and the work force to double the output of, say, automobiles. Both tasks are possible. However, the issue is not what is technically possible but, instead, whether the task is performed in the most economical way.

The initial exchange in the calculation debate came in an article written in 1920 by von Mises titled "Economic Calculation in the Socialist Commonwealth". (CEP:87-130) He begins the essay by noting the general dearth of serious economic theorizing by socialist thinkers. Primarily, he
said, they have failed to understand the implications and problems involved with trying to calculate rationally without the market mechanism. Assuming that scarcity is a perpetual problem of the human condition, and that all systems wish to follow the 'economic principle', Mises argued that socialism could not deliver on their claims of economic superiority, nor, in fact, exist as an economic unit. Some commentators took him to be saying that a socialist economy is an actual impossibility. Instead, his point was that socialism is doomed to fail as an "economic system". Specifically, the issue is whether a socialist commonwealth could operate according to the economic principle, namely, to "attain the greatest possible result in relation to the expenditure, or to attain a given result by employing the least possible expenditure (the least possible sacrifice)". (73:7) In a socialist system where the means of production are not privately owned and where "the business initiative is invested in a central authority which alone directs industrial activity", economic calculation, states Mises, is impossible or at least inferior to that of the free market.

In a market system, prices are supposed to reflect the relative scarcity and the value attributed by consumers to the item in question. The interplay of supply and demand registers the aggregated valuations of buyers and sellers such that we can calculate the exchange ratio for goods and
services. Prices allow us to compare the value of economic goods as we reduce all exchange relationships to a common denominator indicating the exchange ratio (i.e., money). Or, in the language of the Austrian School, money becomes the universal measure of the subjective values of individuals. As such, we seldom build houses out of marble because we know that cheaper materials can be substituted for marble without an appreciable loss in utility. While this example appears to be trivial and obvious, the point is in a complex society individuals and firms are constantly struggling with the economic principle. All buyers and sellers, we are told, need a method of assessing whether or not they are utilizing their resources economically. That is, have they "economically ... placed the limited means at the service of (multiple) ends". (CEP:103) Money, competition, prices, interest rate, free exchange, and other attributes associated with a free market, are all deemed to be essential elements for any type of successful economic calculation. The signals they send embody the information and knowledge which, if used correctly, can allow for the most efficient use of resources. Without them, Mises claims, "there can be no economy ... no means of determining what is rational ... (and no way to) know whether the ends we have chosen and pursued has been accomplished with the least expense". (CEP:105-106)
The initial response to Mises' article was to dismiss it as anti-socialist propaganda and as an expression of class interest. However, his arguments were soon recognized by socialist economists as not only worthy of consideration, but also as a major contribution to the theory of social planning. While they thought von Mises was wrong in rejecting economic planning as a feasible alternative to capitalism, he was absolutely correct on many points.

As a result, most proponents of economic planning dropped the notion of a moneyless economy and a strict adherence to the labor theory of value. They recognized that the economic principle would still exist, and would have to be dealt with, in a socialist system. As such, they attempted to conceive of a means by which prices could reflect the relative value of resources minus the market system of private ownership. Or stated another way, how could the resources of society be used to meet the social needs of its members with the assurance of maximum efficiency. They conceded that the issue of relative costs had to be addressed by those interested in constructing a socialist economy. Mises was right, "without prices for the means of production the central authority will have no data for determining whether the contribution and the sacrifice are greater or smaller than the results". (73:129)
The task was to devise a mechanism by which a socialist system could provide the planners with reliable data, i.e., the relative values of the society's resources. There was a general agreement after von Mises' article that the arbitrary setting of prices by the C.P.B. would not take into account changes in the availability of resources, changes in consumer demands, technological advancements, or variations in individual contributions. Therefore, it was argued, a flexible system analogous to the market process would have to be devised to register the economic value of all the available resources. If not, von Mises would be right in claiming that socialized central planning would become irrational and inefficient.

Some might be tempted to say "to hell with efficiency" or that the "loss of efficiency would not be too high a price for the realization of a more just distribution of wealth". Why not provide for society's needs and accept the results as preferable to the "cool efficiency" of the market? At this point Hayek enters the debate to counter this line of thought by claiming that the loss of rational calculation would, in time, lead to a reduction of output; a goal which is certainly not the intention of any society. Implicit in his argument is the firm belief that the market system is not only the most efficient system, but that it will produce more social and economic goods for everyone.

(IE0:149)
Responding to the criticisms and the insights of Mises' article (later to be expanded into a book length tome with the English title Socialism) were the seminal works of Fred Taylor ("The Guidance of Production in a Socialist State") and Oskar Lange ("On the Economic Theory of Socialism").

(88) Both men paid tribute to Mises for pointing out the necessary function of price formation in economic calculation. But, they both argued that "the absence of a market does not prevent the setting up of accounting prices or provisional valuations for the purpose of allocating resources." (88:12)

Taylor and Lange argued that "production in a socialist regime (could) be ordered in substantially the same way as it was in a competitive one." (88:13) The Taylor/Lange proposal called for a genuine market for consumer goods and for labor. That is, there would be a means of registering consumer demands and freedom in one's choice of occupation. Consumers would make their desires known by registering their demands for products at state controlled stores. The stores in the early stages would randomly assign prices or would simply use 'traditional' prices for items. If consumer demand was greater than the supply, or if an excess supply of a good was noticed, this information would be passed along to the planning board. The task of the planning agency would be to take this information and apply it to the following rule of production:
Always (use) the method of production (i.e., the combination of factors) which minimizes average cost and to produce as much of each service or commodity as will equalize marginal cost and the price of the product. (88:78)

What is needed to carry out these instructions are the relative prices of the factors of production and of the finished products. But how would the planning authorities discover the marginal cost of the thousands and thousands of factors involved? Lippincott explains that:

... a provisional valuation, in terms of money, would be assigned to each factor. The managers of the socialist enterprise would then carry out their operation as if the provisional valuations were absolutely correct. Then, if the authorities had assigned a valuation to any particular factor which was too high or too low, that fact would be disclosed in unmistakable ways. If too high an evaluation had been assigned, causing authorities to be unduly economical in the use of that factor, a physical surplus would show at the end of the production period. If too low an evaluation had been assigned, leading the authorities to be too lavish in the use of the factor, a deficit would show. Surplus or deficit— one or the other would result from every wrong valuation of a factor. By successive trials the correct valuation for each factor, showing its relative importance, could be found. In other words, by a method of trial and error the correct accounting price for each factor could be ascertained. (88:14-15)

By taking into account the level of consumer demand for each product at a prescribed price, the central authorities could adjust the prices by reading the level of surplus or deficit for each product. The price of a commodity will, in turn, be raised "if demand exceeds supply and lowered if the reverse is the case". (88:86) As prices are adjusted higher or lower, consumers will in the next phase readjust their
demands to the new prices. Again, new surpluses or new shortages will be disclosed. This pattern of adjusting prices and output in accordance with surpluses and deficits will be repeated until the equilibrium price is found (i.e., "where demand and supply are in balance"). (88:89) Implicit in this approach is the accepted assumption that value and prices can be discovered by a process of calculations supplied by mathematical advancements in economic theory. Drawing upon the work of Pareto and developments in quantitative model-building, the "market socialists" believed that production costs, with an eye towards efficiency, could be found mathematically by plugging the relevant data into a set of equations.

At this point von Mises retires from the debate, feeling victorious, leaving it to Hayek to criticize the Taylor/Lange proposal. Hayek acknowledges the breakthrough that has taken place in finally getting the socialists to address the issue of economic calculation. He also praises them for accepting the vital role that money, price information, and consumer inputs play in the problem of economic calculation. Hayek's counter-attack involves three major issues: 1) the theoretical possibility of socialist planning; 2) the practical feasibility of centralized planning; and 3) the question of the comparative efficiency of the two systems.
The problems involved with social planning as depicted by the market socialists are very similar to the problems inherent in general equilibrium theory. Simply put, their analyses are based on a set of assumptions which are theoretically necessary for their models, but highly dubious in practice. They both begin with assumptions about the amount or type of knowledge possessed by individual agents, and, in the present case, by members of the C.P.B. Yet, in the real world, we face limited and imperfect knowledge. Furthermore, they seem to assume a static, not a dynamic, system. It simply is not possible to hold the conditions stable while the process of "trial and error" is going on. (21:29) According to Hayek, the market socialists are assuming that: if we had perfect knowledge, and if the economic arena is stable, and if the C.P.B. could assimilate instantly or quickly the meaning of the data collected, and if their "managerial adjustments" could prove equal to "entrepreneurial alertness"; then, and only then, is large-scale economic planning theoretically possible. Of course these standards cannot be met by any system. Hayek does a disservice to the debate since the question is not one of meeting these criteria but whether planning can do well economically vis-a-vis the alternatives. What we need to address are Hayek's arguments that directly pit planning against the market mechanism. Or, the use of the market mechanism within a socialist system.
According to Hayek the nature of the economic game is played quite differently in a system using centralized planning and socially owned resources. To instruct managers, as employees of the state, to play at market competition is ludicrous from Hayek's understanding of economics. To assume that "individuals who have no interest of ownership will reach exactly the same decisions (economical ones) as those that have" is to misunderstand the dual incentive of the market system. (73:86) The personal involvement of both profit and loss serves as the systemic taskmaster for economic efficiency. Hayek feels that the manager in the socialist regime would lack the necessary incentives to take the risks and to explore new avenues required for economic success. Also he feels that once a plan is agreed upon and put into action, innovations and adjustments will be difficult to make. Planning translates into rigid behavior, whereas the market, in Hayek's logic, proves to be a more flexible device when confronted with new conditions and new needs.

Hayek supports his anti-planning position from an epistemological point of view. A market system is superior to a planned economy in that the former can better handle the fragmented, limited, and fluctuating bits of economic information. Planners, in contrast, would have to respond daily and hourly to changes in the system, a task which Hayek feels is impossible. He claims that:
To imagine that all this adjustment could be brought about by successive orders by the central authority when the necessity is noticed, and that every price is fixed and changed until some degree of equilibrium is obtained, is certainly an absurd idea. (IEO:157-158)

To take advantage of new developments and opportunities, information of various sorts has to be quickly responded to. Without individual flexibility "to make use of special opportunities, special bargains, and all the little advantages offered by ... special local conditions", costs can only go up. The rigidity and the hierarchial nature of centralized planning has a cost of its own which inhibits sound economic decisions. This claim seems to be supported in systems using centralized planning in that most reforming efforts seem to advocate "decentralization". That is, there is an awareness that local units should be granted greater freedom and flexibility to make better use of its "special opportunities".

Commenting on the debate forty years later, David Steele offers a valid observation: Both sides always argued their own position in an idealized form, using it to knock down a straw man version of their opponents' argument. (147:7-21) This is certainly true of Hayek's analysis. No economic system, not even Hayek's idealized version of the marketplace, can possibly meet the standards he sets up to judge the planning system proposed by the market socialists.
While he is quick to point out the diseconomies, the rigidities, and the information problems which could disrupt planning; he fails to acknowledge that these problems also plague market systems. The credulity that Hayek finds in someone who advocates planning is at least equal to the amazement that many have when the notion of the invisible hand is explained to them. It seems incredible that society in general benefits from individualized self-indulgence.

Part of Hayek's problem is that planning conjures up only one form for him, that is, the highly centralized type. The idea that planning could take some other form allowing greater freedom, flexibility, and choice is simply not considered. And even if we concede to him his point about the difficulties involved in processing knowledge by planners, there is no reason why they might not devise ways of easing this problem; nor to think that this problem is greater to them than it is to a corporation's board of directors or to a small businessman. In fact, we never encounter a completely free or a completely planned system but always some mixture of the two. Hayek's proclivity of always presenting us with two extremes (free market vs. central planning) seems not only simplistic but also at odds with certain adjustments he has made in other areas, specifically in his methodology. If he now admits that "degrees of predictions and explanations" are to be considered in his unified methodological view of studying phenomena, one must wonder about
"degrees of planning." If the rigid view about duality no longer holds in methodology, why should this duality in the economic dimension be maintained? Do we simply face a choice between a planned system and a market system, or might there be areas where planning can be socially useful, efficient, and superior to the market solution? Some form of planning may be the only way to solve various problems facing us today in the areas of resource management, pollution, industrial policy, as well as in a whole host of other essential public goods. Planning can be used to help mitigate some of the worse social and economic effects of unregulated capitalism, as well as to handle particular problems which appear to be ignored by marketplace logic and dynamics. (Monopolistic practices and pollution are two examples where the market process can spawn a major problem that needs to be addressed yet the normal market mechanism seldom finds ways of handling them.)

On looking back, the socialist calculation debate appears to be one of those long-forgotten intellectual squabbles. Each side rages contemptuously at the other and no one seems to learn much from the encounter. Actually, the market socialists did learn at least two things. First, they realized that a mechanism, like the market, would be needed in revealing the relative costs of the factors of production. Without this all hope of operating efficiently disappears. Secondly, they left the debate, I think, with a
greater appreciation of the problems that central planning poses. Planning is not a simple matter as Engels suggested, but is a complex exercise. What they refused to accept was the idea that the market alone is the best way to organize an economy or that its results are desirable. They were motivated to espouse planning primarily from a normative position. Planning, it was hoped, would prove to be a superior way to meet the economic needs of a society.

Hayek, in contrast, would have us believe his support for the market order can be made without invoking any moral claims (although he does). The market process, we are told, simply works better because it allows individuals the opportunities, and the incentive, to make use of the fragmented and dispersed bits of economic information. This, he claims, is an epistemological and methodological fact. What needs to be asked is if planning is suspect because it fails in an objective sense, or because it threatens a particular order characterized by private property and inequality? Hayek hopes that we accept the first reason which is why he has gone to such great lengths to elaborate upon his view about the nature of human knowledge. If we accept it, it has major consequences for economic policies and politics alike. Those who advocate planning and face Hayek's premise about knowledge have three options. One, they can totally reject the epistemological premise; two, they can accept it as sound advice, but not ruling out all forms of planning;
or three, they can make the case that it has nothing to do with economic policy. If we are faced with a non sequitur, then Hayek's arguments become ideological. In fact, one observer has noted that Mises and Hayek seemed to have become aware of the insignificance of their arguments as they shifted away from proofs dealing with the economic inefficiency of socialism to "a purely political criticism concerning the relationship between planning and individual freedom." This is a point we will take up in the next chapter.

But Hayek has not modified his views about planning. He has an a priori belief that the market process is superior to any alternative way of operating a nation's economic life. To his critics, he has worked long and hard to convince them of the benefits of the market order by depicting it as a process producing a marvelous symphony between human knowledge and human actions.

Hayek's denigration of developments in economic theory, Keynesianism, and economic planning, overlooks, I think, many positive advancements made in each area. Advancements in the analytical tools used by economists are derided by him as examples of pseudo-science. The use of governmental fiscal policies to regulate the economy are described as heavy-handed and destructive in the long-run. Planning is seen as a preposterous attempt to manage economic information from the center when the nature of economic knowledge.
requires decentralized decision-making. Broadly speaking, all of these developments represent man's attempt to better understand his economic world and to bring it under greater human control; for Hayek this is not an encouraging development.

Up to this point Hayek's support for liberal capitalism has been based on the alleged superiority of the market process to communicate important knowledge to various individuals for the sake of economic efficiency. In the next chapter we will address Hayek's political defense of the Liberal Order. He will maintain that his brand of liberalism can be logically connected with the positions he has staked out in epistemological, methodological, and economic dimensions treated up to this point.
NOTES


THE CRITIQUE OF SOCIALISM

In the last chapter we looked at Hayek's arguments against socialist economic planning. The discussion was directed towards a rather narrow constituency of theoretical economists concerned with the issue of economic management. The political events in Europe in the 1930's and 1940's, however, upped the stakes in the debate because Hayek claimed that the totalitarian regimes in Nazi Germany and Soviet Russia were variants of a common strain of thought, namely, socialism. This bold claim was put forth by Hayek in his post-war book *The Road to Serfdom*, touted ever since as a classic warning about the political dangers inherent in social planning. In the following pages we will examine his views about the appeals of socialism and why intellectuals seem to find the arguments so attractive. His fear is that the allure of socialist promises will weaken the restraints favored by classical liberals to check state power.

Hayek is not opposed in principle to some of the goals espoused by socialists, for example, greater material equality. What he objects to is the mechanism they wish to use to implement their stated end goals. By using the power of the state to redirect wealth or to pursue certain collective goals, the state, he feels, must be given wide powers.
In doing so we create the possibility that a Hitler or a Stalin will come to power and use the state to accomplish their plans. The totalitarian nightmare becomes a real possibility for Hayek once the restrictions on state power are removed and replaced by the "will of the people", the "wisdom of the party", or the resolve of "the leader". The reason why classical liberals insist upon limiting state power is because they feel that men are quite capable of doing great evil to each other. Since men are not angels, there is a need for some arrangements to help keep the peace. The question concerns what types of political arrangements will let human civilization flourish while at the same time protecting it from the barbarism that all too often destroys it. I cannot emphasize too strongly that Hayek's reaction against socialism is closely connected with his abhorrence of the events associated with the violence and lawlessness of Hitler and Stalin. While we can understand his feelings towards those regimes, we have to look closely at his thesis that socialists are largely to blame for creating the conditions favorable for totalitarian rule. This, I will maintain, is a gross bit of distortion on Hayek's part primarily because he chooses to overlook other factors or explanations related to their coming to power. But first let us look at the substantive points of his critique of socialist thought.
Kinds of Rationalism

In Hayek's reading of the history of ideas, sometime in the 16th century a new meaning was given to the notion of human reason. To the medieval thinker, Hayek tells us,

Reason had meant mainly a capacity to recognize truth, especially moral truth, when they met it, rather than a capacity of deductive reasoning from explicit premisses. And they were very much aware that many of the institutions of civilization were not the conventions of reason but what, in explicit contrast to all that was invented, they called 'natural', i.e., 'spontaneously grown. (SPPE:84)

It was against this "older natural law theory" that a rival notion about the course and the cause of human development began. It was "the new rationalism of Francis Bacon, Thomas Hobbes and particularly Rene Descartes," Hayek feels, that "contended that all the useful human institutions were and ought to be deliberate creations of conscious reason." (SPPE:85) According to Hayek, Cartesian rationalism assumed a "personal inventor for human institutions" and that man is fully capable of creating or designing a social order through reason. (SPPE:85) Following this line of thought, Hayek feels that many rationalists became blind to the forces of historical evolution preferring, instead, to place their faith in the powers of human reason to create and order their existence. Implied in this logic, Hayek claims, is an attitude that men should not only make their institutions but that they can also "change them at will." (SPPE:86) "It is from this kind of social rationalism or
constructivism," Hayek argues, "that all modern socialism, planning, and totalitarianism derives." (SPPE:85)

Hayek contends that our most cherished institutions and practices have evolved slowly over the ages, in a trial and error method, without the hand of a knowing human creator. Languages, ethical codes, and the laws we obey are examples of human arrangements which evolved out of human actions, but not from human design. Instead, they represent social phenomena which grew spontaneously, producing institutions and practices no one had the intention of creating. Society comes to accept (or to reject) these products of social evolution not because they conform to some standard of rationality, but because they have proven themselves to be socially useful, although, Hayek concedes, few people at the time understand why.

This attitude of disdaining spontaneous growth, preferring instead deliberate programs of actions, is in part traced to the great success that the Cartesian method had in the natural sciences. However, the uncritical transfer of the Cartesian spirit into the social sciences has facilitated the development of a social engineering mentality. That is, the desire to rationally design one's social order as an engineer might plan to build a physical structure. This way of thinking Hayek calls constructivism, and he sees it as the pratical attitude in social affairs that parallels
the attitude of scientism in methodological concerns. (SPPE:85) Both represent an exaggerated view of our ability to understand, order, and control our social existence in the ways we might wish. Again, constructivistic rationalism fails to appreciate the limits of human reason.

Against constructivistic rationalism Hayek stresses the Humean proposition that "human intelligence is quite insignificant to comprehend all the details of the complex human society, and it is this inadequacy of our reason to arrange such an order in detail which forces us to be content with abstract rules". (SPPE:88) He goes on to claim that:

The crucial fact of our lives is that we are not omniscient, that we have from moment to moment to adjust ourselves to new facts which we have not known before, and that we can therefore not order our lives according to a preconceived detailed plan in which every particular action is beforehand rationally adjusted to every other. (SPPE:90)

Once again Hayek has simplified a complex issue. On his terms we must either embrace traditional practices or succumb to the pride of thinking we construct our own environment. While he is willing to allow some limited experimentations with traditional practices, he clearly prefers that we accept them as embodying the wisdom of the ages with the useful effect of providing "some degree of order in complex human affairs." (SPPE:89) The alternative is to disdain general rules, preferring instead to "judge each particular situation 'on its merits' according to reason." (SPPE:85) Not surprisingly, he loves to quote Lord Keynes
from an autobiographical essay to dramatize his point.

Keynes wrote of himself and his friends that:

We entirely repudiated a personal liability on us to obey general rules. We claim the right to judge every individual case on its merits, and the wisdom, experience and self-control to do so successfully ... we repudiate entirely customary morals, conventions and traditional wisdom. We were, that is to say, in the strict sense of the term, immoralists ... we recognize no moral obligation on us, no inner sanction, to conform or to obey. Before heaven we claim to be our own judge in our own case. (Quoted in SPPE:89-90)

The lesson to learn from this bold claim is that we cannot repudiate societal norms without threatening society itself. Although he does expect us to try out new ideas (as scientists are instructed to push their theories with new tests), it is fairly clear that he prefers conformity to abstract rules to the experimentation with the rules themselves. Rules or practices which have evolved are in his mind usually superior to arrangements designed by man. But there is no definite evidence or reason why this had to be, or that a particular arrangement that proved useful at one time will necessarily be so in the future. He has given too little credit to arrangements designed by men which have proved to be very useful. Many modern-day social institutions such as social security, unemployment compensation, health and safety standards, environmental regulations, public utilities, and other public services have been designed by men with a clear goal in mind and an actual achievement in practice.
Hayek's objective in contrasting these two kinds of rationalism is to garner support for spontaneous orders, incremental change, and a type of rule utilitarianism in moral and political affairs. Hayek makes a shrewd move in trying to associate the market order with other human arrangements (languages, laws, and moral codes) which he tells us have evolved independently of any one human creator. If our laws and languages have evolved, and are deemed good, then Hayek hopes that we will accept the market order as a natural, neutral, and good arrangement because it too is a product of evolution. This argument may be plausible, but it is not totally persuasive.

By putting down human reason and the ability of men to shape their social environment, he is really striking out against any move away from his ideal conception of political life, namely, liberal capitalism. If the contrast between Hayek's two notions of rationalism is weakened, as he relaxed his insistence on dualism in the methodological dimension, then he would have to reconsider his opposition to the possibility of successful planning. But since he sees planning as the antithesis of the market system, he is put into an uncomfortable position of having to denigrate human reason. Therefore, he fights to characterize the desire to subject human events to rational control as naive and as a clear abuse of reason. The belief that we can know all of the pertinent facts, how they will interact with each
other, and how to manipulate them in accordance with a master plan is, according to Hayek, a dream only a madman could entertain. Yet in spite of his efforts to dampen the urge to direct the course of human civilization, the dream to do so has not abated. As Hayek sees it, many intellectuals dream the dreams of madmen.

**Intellectuals and Socialism**

Intellectuals -- encompassing a wide range of people who deal in ideas: journalists, teachers, ministers, publicists, artists, etc. -- typically accepts the appeals of constructivist rationalism. In a 1949 essay "Intellectuals and Socialism" Hayek anticipated much of the current "new class" argument coming from today's neo-conservatives. (83:5) The point they make is that while intellectuals appear to be far removed from the levers of power, they do have a major impact on public opinion. Over time their arguments filter down into what we might call the current wisdom and it can have a profound affect on public policy debates. Hayek argues that many intellectuals advocate programs of national planning from a very naive, but well intended, belief that most human problems can be solved by the direct use of human reason. This belief comes easily to the intellectual mind impressed by our vast accomplishments to solve many technical or scientific problems. According to Hayek, intellectuals are quick to assume that
With the application of engineering - (like) techniques the direction of all forms of human activity according to a single coherent plan should prove to be as successful in society as it has been in innumerable engineering tasks. (SPPE:187)

Hayek concedes that this way of approaching social problems "is too plausible a conclusion not to seduce most of those who are elated by the achievements of the natural sciences". (SPPE:187)

The seduction of intellectuals by the advances made in the natural sciences is, of course, understandable. Success breeds the longing for more successes and there are always new fields to conquer. We have already mentioned the goals of many 19th century social thinkers, like Comte, who were determined to find the laws of society or to construct a science of man as impressive as those dealing with natural phenomena. Our modern-day intellectuals, Hayek tells us, have failed to appreciate the fact that the methods and the habits of thought which have proved to be so "successful in producing advances in so many fields should have limits to (their) usefulness ... and become positively harmful if extended beyond those limits". (SPPE:187) Hayek fails to specify what these limits might be, only cautioning us that they do exist. Nor does he indicate when their "usefulness" begins to wane, only that they do.
We should note here the parallel between Hayek's vaguely defined "limits" and "usefulness" that particular ways of thinking have in social planning, and his methodological position of "simple" vs. "complex" phenomena discussed in Chapter Two. In particular, we confront once again an amorphous middle ground between two extremes or conditions. Hayek has little to say except that extreme rationalism, like extreme naturalism, must be avoided and that modest "piecemeal rationalism" is the way to proceed in social matters. Complexity, whether in social or methodological matters, implies that we are pushing against the limits of human reason and knowledge. As such, we have to accept a more modest set of expectations and objectives in our management of human affairs.

However, to criticize Hayek for vagueness in this matter may be missing the point. A precise statement of the problem, along with a clear solution to it, is not Hayek's intention. His message all along has been that of pointing out our lack of precision, our limited ability to reason, and our profound ignorance when it comes to most social matters. A more important issue is why these injunctions have not been heeded by intellectuals.

Certainly it is not because they are stupid. Interestingly, Hayek claims that "it seems to be true that it is ... the more active, intelligent, and original men among the
intellectuals who are most frequently inclined towards socialism, while its opponents are often of an inferior calibre". (SPPE:188) But if this is so, why do the "intelligent" and the "original" find socialism so attractive? We are given three possible answers. First, to be a proponent of classical liberalism is downright boring and dull especially if one is living in a society more or less patterned on and practicing liberal principles. That is, once the liberal program has been institutionalized, Hayek feels that there is little glamour or intellectual work remaining outside of defending the status quo; a task, he concedes, easily turned over to those of "an inferior calibre."

Related to this somewhat pedestrian task of defending liberalism is a second reason, namely, the stimulation that socialist thought provides. Our minds apparently love the challenge presented in reforming and reconstructing society. Intellectuals, Hayek claims, have to be attracted to this type of mental activity more so than thinking about the "more practical and short-run considerations of piecemeal improvements of the existing order." (SPPE:189) Socialism carries with it a visionary appeal and a great deal of imaginary play for the reformer. For the intellectual, socialism satisfies a legitimate desire for the understanding or the rational basis for any social order and gives scope for the exercise of that constructive urge for which liberalism, after it has won its great victories left few outlets. (SPPE:189)
The true intellectual, apparently, is "cursed" with the unlimited "urge" to restructure society; he wishes to plan its social, economic, and political orders right down to the last nut and bolt.

The third attraction socialism may have for intellectuals is one, I think, Hayek fails to deal with. There is an honest belief held by many thinking people that the human condition can and should be improved. Reconstructive urges and intellectual glamour are in many cases the effects of a deeply held feeling that man has the ability to bring about many life-enhancing reforms and social improvements. If we deny this motive we have, in effect, denigrated the progressive qualities of human reason. And, possibly worse, we passively come to accept "what is" as the best we can do. We find in Hayek's thinking a clear preference for the status quo, especially when it is contrasted with the uncertainty of change. He is of the mind that changes within a liberal-democratic polity are most likely to produce harmful effects. Hence, the reforms entailed in even a modest socialist program are strongly resisted by Hayek.

The Development of Hayek's Radical Anti-Socialism

In a lecture given in 1979 to honor the late Ludwig von Mises, Hayek "confessed" that as a young man he expressed some "sympathy with mild Fabian socialism". (CI:13) As such, his first impressions of the arch-enemy of socialism, Ludwig von Mises, proved to be extremely cool. They met in
the 1920's while they were at the University of Vienna, Mises as a lecturer in economics and Hayek as a student. Hayek recalls the day he attended one of von Mises lectures finding him to be so "conspicuously antipathetic" to Fabian views that he had absolutely no desire to study with him. But, he added, "things changed." (166:13-14)

Upon graduation Hayek was hired by Mises to assist him in a government office as an economist and, in time, the two teamed up to create an institute for the study of business cycles. This close working collaboration, along with the exposure to the Austrian view of economics discussed at von Mises' Privatseminar, greatly influenced Hayek's views on economics and politics. As a result, he claims that von Mises "certainly had more influence on my outlook of economics than any other man." (CI:14) He also inherited his mentor's antipathy for socialism.

It would not be an exaggeration to say that Hayek's main intellectual task has been to offer a complete economic, political and moral refutation of socialism. The indictment is vigorous and it leaves no doubt about the consequences Hayek attributes to socialist policies:

On the moral side, socialism cannot but destroy the basis of all morals, personal freedom and responsibility. On the political side, it leads sooner or later to totalitarian government. On the material side it will greatly impede the production of wealth, if it does not actually cause impoverishment. (NS:304)
The unintended yet inevitable consequences of socialism, warns Hayek, will be immorality, a network of state-run gulags, and institutionalized poverty. We are told that all human progress will end and that civilization itself will plunge into the moral abyss of the "lower depths". For some, this seems like a crude and an extreme caricature reminiscent of anti-utopian novels like 1984 and Brave New World; but for Hayek this picture is not an exaggeration. Drawing upon the examples of Hitler's Nazi Germany and Stalin's Soviet Russia, support for Hayek's worst fears were much too real as he drafted the warnings presented in The Road to Serfdom in 1944. Simply stated, these totalitarian regimes were the direct results of accepting the logic of constructivistic rationalism and the willingness to use the state to impose radical change.

The socialist error, according to Hayek, is not in desiring to improve the lot of mankind. The error lies with the methods they desire to use to accomplish their ends. Any time a society comes to endorse a hierarchy of collective goals, and uses the power of the state to impose that hierarchy, individual freedom must be sacrificed. The Road to Serfdom attempts to argue the point that collective planning and individual freedom are mutually exclusive goals.
The Post-War Warning

In The Road to Serfdom Hayek conveys a dual message. First, that "socialism means slavery", and second, that mankind has failed to recognize a fundamental truth that freedom in economic affairs is a quintessential condition for personal and political freedom. All collectivist theories, of which socialism is but one type, must eventually inhibit or destroy individual freedom by regulating the economic freedom of its members. To those who argue that socialism and individual freedom can co-exist, or that "individualist socialism" is possible, Hayek dedicates the 1944 book. He does so with the sincere hope that his book will convince them of their errors.

In the book Hayek argues that the events in Nazi Germany and Fascist Italy were the direct consequence of accepting collectivist methods of governing. Writing in 1944, he perceived little difference between fascism and communism claiming that they "are merely variants of the same totalitarianism (process) which accepts the central control of all economic activities". (RS:VII) Regardless of whether they call themselves fascists, socialists, or communists, they all share "the methods of collectivism irrespective of the ends for which they are used". (RS:34) The end goals which are said to distinguish the socialist state from the Fascist state, Hayek finds, quickly vanishes once the state takes on the responsibility of restructuring
society. For Hayek, the key similarities are the deprivation of individual rights, the ridicule of the Rule of Law, and the unlimited use of state power for particular ends.

Socialists were culpable, states Hayek, for the lawless situation that developed in Europe during the 1930's and 1940's. Their support for a strong central government and extensive state involvement in managing social affairs aided the anti-liberal fascists in their quest for unlimited state power. By conferring a sense of legitimacy to a strong and active government, the socialists unwittingly weakened traditional restraints against governmental power. The crucial point of Hayek's analysis is that while left and right ideologies differ in many ways, they do have one overriding feature in common. That is, they feel no compulsion to limit the power of the state once they feel that its power is in the proper hands. Hayek reasons that once the state possesses a monopoly of power, opponents to the official goals of the regime will not be tolerated for long. Eventually, in Hayek's view, individuals will come to power who will not be reluctant to use coercion to banish those who oppose them. These individuals (the Hitlers and the Stalins) are either intolerant of opposing views, or are so sure they are right that individual freedoms mean nothing to them, or both.
But *The Road to Serfdom* was more than a history lesson. Its primary purpose was to warn English socialists that they were about to commit the same kinds of mistakes in the post-war era as their fellow German socialists did in the years prior to Hitler's ascent to power. To Hayek the similarities were ominous. Would the statist arguments and proposals offered by English socialists pave the way for a totalitarian regime in a land famous for its liberty? Would, as Hayek puts it, the "totalitarianism in our midst" take advantage of the declining checks on state powers to impose their will upon the English people? His warning claimed that it could happen here, in the politically free and liberal Western states, unless we carefully guard our individual liberties and fight against an expanded role for the state.

But surely Hayek's comparison of Germany in 1924 with England in 1944 is a bit exaggerated to say the least. Different traditions, political cultures, and political history work against such a simplistic comparison of the two nations. Yet he is intent on tracing totalitarianism solely to the influence of socialist ideas. In examining Nazi Germany and the Soviet Union he fails to consider that these countries have had long traditions of authoritarian and illiberal rule, and that the rulers in both nations have usually been despotic. Stalin may have claimed to have been a socialist, but his rule was a classic example of Russian
despotism reaching, unfortunately, classic proportions. Hitler's national socialists were hardly socialists. The nature of his rule should be traced to racism, anti-semitism, and German nationalism, rather than to socialism. If the Nazis worshipped state power it had more to do with Prussian authoritarianism and German glorification of the state, than with socialist ideas. Hayek is not very convincing in making this type of argument, and others have offered explanations about the roots of totalitarian regimes which seem far more plausible.¹

In addition, many doubted that England would be transformed overnight into a totalitarian state duplicating the German experience. Writing ten years later about the main themes in *The Road to Serfdom*, he commented upon this point. Apparently he did not mean that Britain would become a totalitarian entity if the British Labour party came to power. Instead, such an occurrence would simply begin a long and gradual process which, in a generation or so, might well destroy the Englishman's commitment to the principles of liberty. He states that:

... of course, six years of socialist government in England have not produced anything resembling a totalitarian state. But those who argue that this has disproved the thesis of *The Road to Serfdom* have missed one of its main points: that the most important change which extensive government control produces is a psychological change, an alteration in the character of the people. This is necessarily a slow affair which extends not over a few years but perhaps over one or two generations.
This important point is that the political ideals of a people and its attitude toward authority are as much the effect as the cause of the political institutions under which it lives. This means ... that even a strong tradition of political liberty is no safeguard ... the danger is precisely that new institutions and policies will gradually undermine and destroy that spirit. (RS:xi-xii)

The danger comes not simply or solely from a revolutionary imposition of socialism ("hot" socialism to use Hayek's phrase), but also in the form of a slow psychological change in "the character of the people."

Hayek offers an interesting interpretation of European socialism. He claims that there was a "socialist imperative" in intellectual thought from 1848 to 1948. During this period the transition to a socialist future was regarded as certain, "the ultimate goal toward which society was inevitably moving." (CL:253) As we have already indicated, the "imperative" was supported by the hubris of rationalism, by the lofty dreams of utopian engineering, and a simple desire to improve upon the record of capitalism. Socialists believed that capitalism, while serving a necessary phase in economic development, would soon be replaced by a more just and a better managed socialist society. Rational planning would replace the chaos of the market system and human suffering could be eliminated once socialist principles of ownership, production, distribution, and work relationships came into practice.
The aims of socialists during this period, states Hayek, "had a fairly precise meaning and a definite program". He describes this program as "the nationalization of the means of production, distribution, and exchange; so that all economic activity might be directed according to a comprehensive plan toward some ideal of social justice". (CL:253-254) While the various schools might differ over the precise methods needed to build socialism (with the Marxists favoring revolutionary change and the Fabians gradual change), "their conceptions of the new society ... were basically the same". To them, socialism meant "the common ownership of the means of production and their employment for use, not for profit". (CL:254)

In contrast to liberals who fought for the limitation of state power, socialists were apparently quite willing to use state power to implement the objectives mentioned above. It is widely noted that classical liberals and socialists hold vastly different conceptions concerning the state's role in assisting citizens pursuing particular end-goals. The ideal liberal state is totally divorced from prescribing particular ends. They emphasize supplying the means (viz., the Rule of Law) by which all citizens are able to make their own way towards the ends that they choose for themselves. Under a system of law, one end is said to be as good as any other, and no one end is given priority. Individuals can freely set their own priorities and can pursue
their own conception of the good life without governmental interference. In a word, the ideal liberal society is end-neutral.

On the other hand, socialists along with other non-liberal views of society, usually begin with an elaborated set of end-goals, highly valued and vigorously pursued (e.g., equality, economic justice, full employment, etc.). Once particular goals have been set, the state has the responsibility to realize them. When faced with the immense pressure to deliver on these goals, Hayek feels that the inhibitions to use coercion (however mild) and to safeguard individual and minority rights soon disappears in the name of collective goals.

Hayek feels that the "collective good" aspect of socialism was exposed by the Russian example, where the "necessary outcome of the systematic application of the traditional socialist program" could be judged by all. (CL:255) The harsh methods used to socialize the Russian people, along with the total disregard of personal liberties, proved that the Soviet road was not the way to humanistic socialism. Drawing upon the Soviet experience, Hayek reports that socialism (or what goes for socialism in the Soviet Union) has failed to make good on its claims in three important areas. (CL:255)

First, the socialist organization of production had shown itself to be not more productive but less productive
than the free enterprise system. Second, the advent of a socialist society would not bring about a classless society of social justice but, rather, a "new arbitrary and more inescapable order of rank than ever before". And third, instead of greater freedom, the Soviet example showed a new despotism of an unparalleled magnitude.

The Road to Serfdom contains a powerful indictment of the threat that socialism poses to toleration and political pluralism. The scenario foreseen by Hayek is that whenever a society turns over to the state unlimited power to pursue particular goals, somebody's freedom to pursue other objectives will be sacrificed. When different values come into conflict in a liberal society, dissidents, at least in theory, have various options open to them. They are not beholden to the state for their livelihood, they are protected by the Rule of Law, and they can pursue their objectives individually or with a group of like-minded individuals.

These conditions, apparently, are absent in a socialist state where economic power is a monopoly of the state, and where expediency overrules the principle of law. Again, Hayek believes that the economic planning function of the state will become dictatorial. There will be no give and take, alternative options, or freedom of choice in Hayek's conception of a socialist state. Apparently, once the collective goals of a socialist society have been set, the
means to those ends must be conscripted by the state to meet the material and manpower needs of the plan. Logic suggests that resources cannot be allocated to endeavours outside the plan or to activities which run against society's stated goals. To do so, Hayek argues, would disrupt the allocation of the limited resources needed to fulfill the plan. If the planners and/or a majority of the citizenry wishes to use society's resources to produce W, X, and Y, and that Z should not be produced, how would the state respond to the following possibilities?

1) What if a sizeable minority not only disagrees about the production of W, X, and Y, but adamently refuses to assist in their production?

2) What if the same minority goes on record in opposition to the plan, advocating instead an alternative set of production goals?

3) How would groups like labor unions be treated if they began to demand higher wages, shorter hours, better working conditions, and more consumer goods, all of which are not part of the current plan?

4) What would happen to intellectuals, religious leaders and other non-conformists who dare to speak out against the plan and the government? What would become of those who attack socialism and support the return of market capitalism? What would happen to F. A. Hayek? Would he be able to speak at public gatherings? Would he be allowed to publish his books and articles warning of the totalitarian prospects inherent in social planning? Would he receive a professorship in economics at a state university?

Hayek believes that once the plan gets official backing, it is the state's obligation to mobilize society accordingly and to dismiss individuals and groups wishing to head in
other directions. If the authorities are serious about reaching their goals, and we must assume that they are, they must not allow extraneous factors (like 1 through 4 above) to interfere with their planning tasks. In time, Hayek concludes, all opposition to the plan will have to be suppressed. Even an enlightened bureaucracy, authorized to implement a plan endorsed by a majority, will find that political opposition, independent labor unions, and various non-conformists cannot be tolerated for long. The authorities will resent their criticism and the seeds of doubt which they place in the minds of those working to fulfill the plan. Furthermore, the state cannot be expected to give scarce resources to opposition groups. For the state to provide the opposition with costly media facilities, printing presses, and other vehicles for the collection and the dissemination of information is, in effect, to deprive their own plan of needed resources. Once you are convinced of the worthiness of your objectives, it precludes the possibility of sponsoring or even tolerating opposing positions.

In addition, economic planning *ipso facto* requires a dogged determination to stand by the plan once the numbers are in place and the directives are given. You cannot nationalize the steel industry today and then reverse that decision two months later. Planning requires a degree of certainty and order (and perhaps rigidity) if targets are to
be reached. Yet, ironically, it is the lack of certainty and stability which play havoc with all planning efforts. Once the plan is set in motion it comes to have a life of its own, becoming impervious to changing conditions, new information, and shifting demands from the public. Planning, Hayek concludes, logically and inevitably leads to intolerance, state-imposed coercion, and severe restrictions upon the democratic process and personal freedoms.

But Hayek should be criticized for this type of characterization of socialism since it is based entirely on the Soviet experience. To think that all socialist experiments must follow the Soviet model and must produce the same type of system should not be accepted. There is no reason why opposition groups cannot exist and thrive under socialism, or why a planned or mixed economy cannot be responsive to various consumer demands. In addition, there is no reason to believe that the state would be a more despotic employer (or even the only employer) than what we find in a market system. If the control of economic resources does become an absolute monopoly of a small minority, this would be a cause for real concern. But this could happen just as well in a capitalistic system where a handful of men could possess the economic power to dominate "indirectly" and control the economic and political life of a society. If, however, society's economic resources could be subject to some form of democratic popular control, with assurances given to the
needs of the minority, the results could be socially desir-able without being individually oppressive; or at least no more so than under a market system. Hayek's analysis fails to consider the record of moderate West European socialist states which seem to have highly successful welfare programs and state planning, along with high standards of living and political freedoms. But, of course, they do not make his case as well as the Soviet example. Nevertheless, Hayek feels that those societies which have adopted or experimented with a mixed economy or a system of moderate socialism, contain the ingredients to become totalitarian regimes. While, as he puts it, "the more obviously totalitarian forms of 'hot' socialism" have subsided, new forms of 'cold' or gradual socialism are rising which he feels "may not be very different from the former." (CL:257)

The Mixed Economy and the Welfare State

Hayek feels that the main threat today comes from "new-style reformers" who are unconsciously constructing a socialist-style state under our very noses. This presents the protectors of liberty with a new dilemma:

So long as the danger came from socialism of the frankly collectivist kind, it was possible to argue that the tenets of socialism were simply false: that socialism would not achieve what the socialists wanted and it would produce other consequences which they would not like. We cannot argue similarly against the welfare state, for this term does not designate a definite system. What goes under that name is a conglomerate of many diverse and even contradictory elements that, while some may
make a free society more attractive, others are incompatible with it or may at least constitute potential threats to its existence. (CL:258-259)

So while the attempt to implement a full socialist system in the old "definite" sense has lost much of its momentum, a dangerous vestige remains. Hayek maintains that these new-style reformers disregard the dangers involved in increasing the scope of state power. They use, in his words,

whatever methods appear to be the most effective for their particular purpose and pay no attention to what is necessary to preserve an effective market mechanism ... they are likely to be led to impose more and more central control over economic decisions ... until we get that very system of central planning which few consciously wish to see established". (CL:256)

These reformers, we are led to believe, are so impatient to correct a perceived wrong or injustice that they will quickly set-up a program without considering the long-term impact of doing so. Such policies may show results in the short-run, but may produce many unforeseen negative features over time.

A specific case can be illustrated by governmental policies concerning housing. Public housing and rent controls are policies designed with the good intention of easing the housing problems of the poor. However, Hayek suggests, these programs often produce the opposite result. Controlling rents at first glance appears to be a godsend to the poor and, for some, controls work to their advantage.
But, as Hayek notes, "any fixing of rents below the market price inevitably perpetuates the housing shortage". (CL:343) When housing costs are artificially kept below the market cost there is no incentive for private parties to build more housing or to properly maintain those units already rented. Price ceilings unintentionally work to keep the supply of units below the demand for more and better housing. (CL:343-346)

Of greater concern to Hayek are the effects which government programs have beyond the purely economic results. In the above example, the housing authority would have the power to tell people where they could live and how to spend their housing money. In addition, state-backed welfare programs, he claims, have the tendency to produce a weakened respect for property and a serious decline in the sense of individual responsibility. The total effect culminates in an erosion of "the general system of freedom" as administrative authorities assume more and more "arbitrary power over the moment of men." (CL:343-346)

According to Hayek, the welfare state undermines freedom in at least two important ways. First, citizens begin to accept, without much thought or resistance, a decline in their personal freedoms for greater security in the guise of governmental guarantees and benefits. Second, state departments or bureaus come to accept a mandate to act in their
particular policy areas. In time, Hayek sees the establishment of a bureaucratic leviathan wielding enormous power over its clientele. Both are part of the slow psychological process Hayek spoke of earlier. Yet, while bureaucratic control is certainly something to be concerned about, its impact on freedom and the state of the individual psyche may be no worse than the control an employer, the bank, or ill-fate may have over the freedom of an average person. At least the bureaucrat and various welfare programs are supposed to serve the needs of their clients.

Hayek does not share the view held by some radical libertarians that all state-sponsored activities should be greatly reduced, if not completely eliminated. In fact, as we shall see in the next chapter, he is willing to accept a rather extensive role for the state, albeit of a particular kind. When it comes to "legitimate" governmental activities he feels that a clear distinction has to be made between those activities which are clearly "service activities" and those which are "coercive activities". For Hayek, herein lies the distinction between the liberal state and the authoritarian state of which the socialist state is but one type.

He argues that "there are common needs that can be satisfied only by collective action and which can be provided for without restricting individual liberty". (CL:257)
So long as all citizens are treated equally and coercion is not utilized except against law-breakers, "there is undeniably a wide field for non-coercive activities of government". (CL:257) In other words, if the objective is merely to "improve the opportunities for all by supplying certain specific services according to a rule" Hayek offers no objections. (CL:261) If on the other hand, state power is employed to give a particular group special treatment by coercing others to facilitate that privilege, then this action is unacceptable.

Yet, by using these standards, it is quite possible for a socialist state to measure up to them. There is no reason why "equal treatment" and "coercion limited to keeping the peace" could not be practiced under a socialist system. And they could do just as well as some liberal states which in practice have used coercion illegally and have given special treatment, explicitly and implicitly, to certain groups, particularly to the owners of capital.

In conclusion, one has to wonder if Hayek's extreme aversion to socialism and the modern welfare state is warranted. The readers of *The Road to Serfdom* will remember that Hayek's totalitarian nightmares were derived from his observations of societies completely lacking constitutional or broadly based democratic traditions. One must seriously ask whether it is valid to base one's objections against planning on the experiences of Soviet Russia. Might not
democratic socialism as practiced in the West prove to be a different creature? In addition, is there really no distinction between fascism and socialism as Hayek is quick to deny? I think Hayek has failed to present us with a solid case on these two issues.

Why does Hayek insist on the rigid dichotomy between liberalism and authoritarian statism? In fact, what useful purpose does this dichotomy serve if all states are far from either ideal type and possess qualities of both? More importantly, if Hayek has now pulled away from his earlier position in support of methodological dualism and now accepts "degrees" of success in using a unitary scientific method, why hasn't he accepted a position concerning "degrees" of social planning? That is, instead of simply rejecting human rationalism as an inferior method of economic organization vis-a-vis the market order, why doesn't he concede that his praise of the market is too extreme and his condemnation of social planning too harsh and dogmatic? Hayek is simply working the line that the unencumbered market order is simply superior to all other methods without considering or giving notice to those areas where planning may be beneficial and superior to the results produced by the market.

While it may not be possible, nor even desirable to plan everything, it may be possible and beneficial to engage in a fair amount of social planning. In other words, let's
see how far up the "planning hierarchy" we can climb before we reach those areas beyond which the effectiveness of planning wanes. We will recall that in methodology we are instructed to do precisely this by Hayek. Of course, there is a critical difference between experimenting with methods and experimenting with social concerns. The former can and should be encouraged, whereas large-scale social engineering can involve serious human consequences. This is apparently one reason why he is cautious about granting the state the power to experiment.

This only explains a part of his refusal to consider reforms or planning proposals. At the heart of his critique of socialism is an undying belief in the benefits of following liberal principles, and his desire to defeat any effort to alter or to replace the liberal conception of the state with another. His dedication to this single purpose can be seen in the many superficial caricatures he draws of other forms of political and economic organization. He overlooks many of the obvious shortcomings of capitalism while at the same time treating the Soviet example as 'the' example of what a socialist society must be like. In effect, he is fighting a rearguard action against all attempts to alter the nature of the classical liberal state. And for someone who has stressed the importance of evolutionary change, his own goal appears to be to stop all
change and to stop all attempts to improve the human condi-
tion via new and creative means. We now turn to his concep-
tion of the liberal state to see what he is fighting so hard
to maintain.
NOTES


2) This is true only in theory. Most individuals in a liberal society still are controlled in many ways by those possessing economic power, i.e., by those who hold the power to hire and fire personnel. Also the laws in a liberal state, and the state itself, can be used to control the weak or the "troublesome" elements in society. We need only mention the history of organized labor in the U.S. to indicate that individuals have not been free to organize for collective purposes if the powers-that-be are determined to prevent such efforts, since they are viewed as challenges to their control and wealth.
"The basic conception of classical liberalism ... is that government must regard all people as equal, however unequal they may in fact be, and that in whatever manner the government restrains (or assists) the actions of one, so it must, under the same abstract rules, restrain (or assist) the actions of all others. Nobody has special claims on government because he is either rich or poor, beyond the assurances of protection against all violence from anybody and the assurance of a certain flat minimum income if things go wholly wrong". (Hayek, LLL3:142-143)

Hayek's political philosophy at first glance appears to be a rather traditional rehash of classical liberalism. However, as I hope to show, his liberalism is predicated on a foundation which is significantly different from many of his liberal cohorts. Moreover, it is possible to argue that he has radically altered some of the main propositions of classical liberalism and may have done so in a precarious fashion. Specifically, the insight he pushes about human knowledge -- namely, that it is a fact of life that human knowledge is limited, dispersed, and largely unorganizable -- has become, not surprisingly, the main pillar for his political thought. He strongly feels that if we are to succeed and prosper as individuals and as a society we need to acknowledge and arrange our institutions to accommodate this basic truth about human knowledge. It is the genius of liberalism, we are told, that it has worked out a set of
political principles which understands that individual free-
dom is the condition for dealing with the limitations of human knowledge.

This line of argument, however, produces some rather startling quirks in his defense of liberalism. Whereas most liberals come to value individual freedom or liberty as an end in itself, Hayek seems to treat individual freedom as a means to other ends. Instead of justifying liberty as a natural right of men and, as such, sacrosanct, Hayek defends individual liberty on the basis of human ignorance or limited knowledge. He argues that:

The case for individual freedom rests chiefly on the recognition of the inevitable ignorance of all of us concerning a great many of the factors on which the achievement of our ends and welfare depends ... liberty is essential in order to leave room for the unforeseeable and unpredictable; we want it because we have learned to expect from it the opportunity of realizing many of our aims. It is because every individual knows so little and, in particular, because we rarely know which of us knows best that we trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it. (CL:29)

The omniscient man, he tells us, would not need liberty. However, due to our general ignorance, individual liberty under known general rules becomes an asset. Successful societies have been those which have allowed individuals as much freedom as possible to pursue knowledge or opportunities when and where they can find and utilize it
for their own goals. From this perspective, liberty is an instrument which helps society to make progress and should not be viewed as self-indulgent egoism.

Hayek states that "what is important is not what freedom I personally would like to exercise but what freedom some person may need in order to do things beneficial to society". (CL:32) As such, individuals should be allowed as much freedom as possible so that they can be potential contributors to human progress. Little is said by Hayek about freedom being an inalienable right of man and justified for its own sake.\(^1\) For Hayek, liberalism is a creed which recognizes and acknowledges human limitations and he asks us to accept the liberal political agenda in order to promote human development and well-being. Freedom is valued as a major contributory factor to this progress; and in this way it becomes a social good and not simply an individual right. But more about this point later.

\textbf{Justifying Individual Freedom}

In Chapter Three we encountered Hayek's solution for dealing with man's basic economic problem. The best way we are told to maximize the satisfaction of human needs within a world of scarcity and limited knowledge is to facilitate the operation of the free market process. The market order allows individuals the freedom to respond to market signals created by unencumbered buyers and sellers so that they can take advantage of various opportunities. The market,
ideally conceived and operating, not only maximizes the choices and prospects of individuals who exchange their goods and services in the marketplace, but it also promotes the overall social product. However, a well-ordered market system does not exist in a vacuum. It depends a great deal upon a political order which recognizes, protects, and maintains those factors which makes this economic order successful. Classical liberalism can be viewed as a response to the needs of building a supportive political structure.

Stated in its most basic formulation, a liberal political order must:

1) Safeguard individual freedom from the arbitrary use of coercion by others and by the state. (CL:133-140)

2) Protect and promote the open channels for communicating knowledge. (CL:223)

3) Uphold the Rule of Law -- that is, a set of abstract, universal rules through which individuals can be made secure as they engage in various social activities. They tell him how to act, and how others can be expected to act, for the mutual satisfaction of all. (CL:148-154)

4) Protect private property. (CL:140-142)

A free market presupposes a free society, that is, a "society in which every individual, with a minimum dependence on discretionary authority of his rules, (can) enjoy the privilege and responsibilities of determining his own conduct within a previously defined framework of rights and duties". (CL:3) The market cannot work effectively unless individuals are free as producers, workers, and consumers;
or if special privileges or protection are arbitrarily extended to particular groups by the state. Likewise, unless the state uses its power to protect the individual from violence, to protect his property, and to enforce legal agreements, the market order would collapse in an instant.

Government exists to protect individual rights, which in the liberal world view, are often the rights associated with the market order. Yet even the state is not completely free to work its will. The monopoly of coercion entrusted to the government, has to be controlled by the framework which amounts to a set of meta-legal principles which puts "government under the law".

This framework according to Hayek is not the product of the individual mind nor should it be subject to man's direct control. First, its design or creation is far beyond the pale of any one man's capabilities; and second, if we allowed one man or one group the right to design and control this framework it would invariably result in their abusing such power. Or, as Hayek puts it, since "no human mind can comprehend all the knowledge which guides the actions of society", there is the "need for an impersonal mechanism not dependent on human judgments, which will coordinate the individual efforts." (CL:4) This "impersonal mechanism" is the Rule of Law or the Rules of Just Conduct which, Hayek claims, have evolved independently of conscious human design. By submitting to the impersonal Rule of Law, Hayek
maintains, we not only escape arbitrary control, we also maximize the conditions for individual freedom since all men -- the ruled and rulers alike -- are made subject to the same laws and its uniform application. Logically, since no one would knowingly accept a law which might be used to restrict their own freedom in areas they wish to be free, the rule of law tends to promote a wide range of personal freedom. This obviously brings to mind Kant's theory of law under which the rules in operation are those which any man would freely submit himself to. The Rules of Just Conduct produce two results:

1) They operate to protect the individual domain from outside interference. (CL:149)

2) They are characteristically negative commands telling us what we should not do to others. Hence, they prohibit actions which would interfere with the domain of others instead of commanding us what we must do. (CL:149-150)

One example of this would be the rules of the road. We accept them as useful general guidelines of conduct which, if followed by drivers, will promote travel and safety on the road. They are negative in that they tell us not to exceed a certain speed and not to run red lights. These negative rules are accepted as prudent measures in assuring order in what could be a chaotic situation. Once in place and enforced, we have some assurance of a safe passage to whatever destination we choose. We are free to travel restricted only by the public rules about driving.
The Two Liberal Traditions

To say that men strive for a free and a humane society is to state the obvious. What is not so obvious are the means to these goals. Since the 17th century, Hayek claims that the Western world has developed two major traditions advocating different means to accomplish these ends. Hayek has done an extensive job in tracing the lineage of these two "liberal" schools of thought and in showing the impact they have had on the modern mind and political thinking. (CL:54-56) The French or the continental tradition plays the villain in this Hayekian tragedy, while the British, or the Anglo-American, tradition is cast as the unappreciated protector of the Great Society. Their respective approaches to the problems of social and political organization can be distinguished by the former's acceptance of constructivistic rationalism and the latter's penchant for evolutionary rationalism. Or contrasted in another fashion: naive vs. critical rationalism.

Hayek argues that the view that man can achieve mastery over his surroundings mainly through the logical deductions from explicit premises is factually false and surprisingly naive. Those who have accepted the Cartesian formula in the realm of social science have either falsely assumed that man's social and political order can be traced back to the conscious and deliberate actions of men, or that with the correct application of reason it is quite possible to
"design-to-order" a benevolent set of social arrangements and institutions. In both cases, proponents have overestimated the capabilities of human reason and have assumed that we have at our disposal complete knowledge of all of the relevant facts. Constructionistic rationalists are unwilling to accept the inherent and irremediable limits to our human reason and the factual and logical impossibility of complete knowledge. As such, their position is predicated on a faulty, and a potentially dangerous, conception of human reason; to the extent that Hayek sees this thinking as irrational. The significance of this way of thinking is that "a whole family of schools of scientific as well as political thought" have emerged which are based upon premises which are seldom challenged or exposed. (LLL1:6) Hayek feels that the errors are seldom seen because the deductions which follow are extremely pleasing to human vanity. He feels that many of the great thinkers of the past have succumbed to this type of intellectual hubris. We can find its political expression in Hobbes and Bentham in England, and on the continent in the work of Rousseau and the Encyclopedists, and in Condorcet and the Physicocrats. (CL:54-55) In more recent times this mode of thought has supported utilitarian, positivism, and socialist thinking. The danger with each lies with their insistence on con-
structing and imposing on society a "logical" and a "rational" order unaware of the inherent limitations involved.

Hayek's theory of knowledge entails our acceptance of certain limitations to "what we can deliberately bring about" and a "recognition that some of our hopes are delusions". (LLL1:8) Human progress, he once again reminds us, has always come from our having a modest view of human powers and a willingness to work within the scope of our actual parameters. We may not like these limitations but we must acknowledge them or else languish in our futile efforts to overcome them.

Hayek commends the English tradition on the other hand for being less impressed by the exaggerated claims made on behalf of human reason. This tradition, including such figures as Adam Smith, David Hume, Edmund Burke, and Immanuel Kant, has made peace with both the limitations of reason and with the temptation to deliberately arrange society for particular end goals. (CL:55-58) Their insight comes from an awareness that the best by-products and artifacts of human civilization (language, morals, material well-being, and the Rule of Law) have evolved over the course of time and are not the direct products of a single human creator.

Instead of conceiving the human mind as an entity standing "outside the cosmos of nature and society" with the
ability to direct this cosmos; the critical rationalist maintains that the human mind is also a "product of the same process of evolution to which the institutions of society are due". (LLL1:5) That is, the human mind as well as man's most precious institutions and practices are constantly evolving through a process of trial and error. Social artifacts are not the gift of a super-mind or a human creator. Developments in human progress have been largely unplanned in the sense that the human agents were largely unaware of the import their actions have had for human advancement. Practices which now appear to be great achievements to us today, probably started and evolved without anyone knowing exactly why they worked or why they came to be great innovations.

We come to accept particular ways of doing things or particular traditions or moral practices because time and time again they have proven themselves superior to other practices, traditions or norms in the course of daily life. The selection process Hayek speaks of takes the following form: if you want to achieve your goal X, experience shows that doing A is the best course of action. While you may think that B may be the best means to X, and we encourage you to try B (or C or D for that matter), past results indicate otherwise. If B, C, or D are tried and found wanting, the agent may finally accept method A. If, on the other hand, any of the other methods tried prove to be
superior to method A, others will shortly change to the more successful methods. Since no one really knows for sure the best way to achieve X, or that today's successful practice will not be replaced by another, we must give full reign to the process of trial and error and new experiments in living.

The Scottish moral philosophers of the 18th century were the first modern-day thinkers to recognize the importance of spontaneous or evolutionary growth associated with human institutions and practices. David Hume, Bernard Mandeville, Adam Ferguson, and Adam Smith, among others, provided in their writings telling support for, and understanding of, the spontaneous formation of social institutions and their contribution to human freedom and material well-being. In contrast with the extreme rationalism of the Continental thinkers, they supported the view that most of man's best and most useful institutions and practices had evolved independent of a conscious human designer.

For example, languages were not invented or designed in a vacuum or even with a clear notion of what it means to "construct a language". These complex human products took many centuries to develop and those who helped to develop them were probably unaware of their contribution to the evolutionary course. At first glance men simply needed a way of expressing their thoughts to other men and they found
that two grunts proved to be more effective than one. Others, noticing this successful practice, simply followed suit without quite knowing why. (LLL1:35-52)

The two traditions also differ over the nature of the rules or norms which guide human behavior. The constructivist position concerning law and morality Hayek calls legal positivism. This position he feels is best exemplified by Voltaire's comment that "if you want good laws, burn the ones you have and make new ones." (LLL1:25) As Hayek sees it, legal positivists believe that man is fully able to intelligently design laws and moral codes for himself and should not hesitate in doing so. Hence, for the legal positivist, to refrain from legislating on a wide range of issues is to be irrational and, even worse, allows society to be confined and controlled by traditional practices which may be parochial, antiquated, and stifling for present purposes. Traditionalists on the other hand, stress that good laws are not created out of whole cloth, but embody a collective wisdom found and proven over time. Furthermore, they characterize the legal positivists as committing the fallacy of complete knowledge, that is, thinking that they know all of the particulars of future events and how their particular rules will manifest themselves in countless situations once adopted. The fact is, Hayek states, that these legal theorists fail to recognize the folly of their premise and the authoritarian mischief entailed by their
position. In particular, Hayek feels that their actions tend to undermine the Rule of Law and tradition by claiming they could do a better job of ordering society if they were given a free hand. In fact, Hayek claims, what they want is to eliminate all "limits to the power of the legislator." (CL:238)

Hayek's understanding of the proper role for the law in human affairs is that it should guide and govern man, and that men should not be able to create or shape the law as they wish. According to Hayek, we maximize our freedom when we accept the guidance of abstract, universal rules which evolved over time, much in the way that English common law has developed. Hayek argues with Kant when the latter claimed that "man is free if he needs to obey no person but solely the laws". (RS:61)

Law, Legislation and Liberty

Hayek's latest work in political philosophy, Law, Legislation and Liberty addresses the foundation for the "preservation of a society of free men", focusing on "three fundamental insights" which he states, "have never been adequately expounded". (LLL1:2) Since much of his most recent work is an attempt to expound upon these three insights, a lengthy summary of each is in order. Hayek tells us that:
"The first is that a self-generating or spontaneous order and an organization are distinct, and that their distinctiveness is related to the two different kinds of rules or laws which prevail in them. The second is that what today is generally regarded as 'social' or distributive justice has meaning only in the second of these kinds of order, the organization; but that it is meaningless in, and wholly incompatible with, that spontaneous order which Adam Smith called 'The Great Society'. The third is that the predominant model of liberal democratic institutions, in which the same legislative body lays down the rules of just conduct and directs government, necessarily leads to a gradual transformation of the spontaneous order of a free society into a totalitarian system conducted in the service of some coalition of organized interests. (LLL1:2)

His second insight on the incompatibility of a spontaneous order with schemes associated with economic redistribution will be postponed here and will be comprehensively treated in the next chapter. In the rest of this chapter we will examine the first and the third insights mentioned above and, in Hayek's view, their import for the maintenance of a free society.

Volume One of Law, Legislation, and Liberty: Rules and Orders tries to delineate two types of law: nomos or the law of liberty and thesis the law of legislation. Both are necessary to the maintenance of a free society so long as the proper domain of each is respected.

In lieu of complete knowledge concerning the various facets of the world around us and the limits to man's rationality, men need guidance in dealing with the vagaries of life. More often than not, societies develop customs,
traditions, or folkways about how to handle the contingencies of life. These guidelines are not necessarily written down, or clearly stated in any definitive manner. They embody the wisdom of time and encompass the practices which have shown themselves to be highly successful for those who have adopted them. They become accepted in the community over time and are passed along to future generations as part of the cultural heritage. They usually have not been created by any one authority, although they may show some human fingerprints as various individuals have "created" a new practice for the cultural heritage. But even in these cases, what the law-maker has given is probably only an articulation of a practice or a norm already generally accepted by the community. Implicit in this is the understanding that these cultural or societal laws predate the state, and while not completely independent of the state itself, these laws are not subservient to the state -- at least not in a free society. (LLLl:94-97)

The nomos of a free society, claims Hayek, is a meta-legal phenomenon quite distinct from legislative statutes and even constitutional principles. Or put another way, the Rule of Law has a much broader and a less defined character than what we usually understand by the word 'law'. Nomos should not be confused with governmental orders or commands (theses) used to handle the daily administration affairs of the state. The former are largely negative in nature and
neutral in their application. Commands or orders, on the other hand, are issued by the state machinery and are typically particularistic and require some specific action. More importantly, the Rule of Law embodies principles which the ruled and the rulers alike must obey.

Furthermore, the Rule of Law functions as a constant, or as a known feature in life, which helps to guide people in their interactions with others. Since it is impossible to anticipate every conceivable future occurrence or to predict how others might act in various circumstances, we are able to overcome this uncertainty to a large degree by accepting and obeying general rules. They create for us and our fellow men "a stable, secure framework for action". (131:13) This framework of accepted practices, if universally obeyed, can give us assurances of how our actions will be deemed proper or improper by others. We will be able to predict with great confidence how our actions will be received by society and, in turn, we have assurances about how others will act towards us. The Rule of Law, Hayek argues, "stabilizes social relationships which, but for the law, may disintegrate or develop in erratic and unpredictable ways". (131:13) The importance of creating and enforcing these "social constants" cannot be overestimated in their impact on human progress. While they certainly do not guarantee us the good life, we are to a great extent provided a life free from arbitrary rule and capricious
coercion. Or as Joseph Raz has noted, "the Rule of Law is often rightly contrasted with arbitrary power". (131:12) When living under the abstract and universal Rule of Law, and given assurances that they will "govern" social interactions, the social order becomes orderly without having to sacrifice personal freedom.

In *The Road to Serfdom* Hayek gives the following description of the Rule of Law:

Stripped of all technicalities (the Rule of Law) means that government in all its actions is bound by rules fixed and announced beforehand — rules which make it possible to foresee with fair certainty how the authority will use its coercive powers in given circumstances, and to plan one's individual affairs on the basis of this knowledge. (RS:54)

The development of the liberal state in 17th century England is closely connected with the strengthening of the Rule of Law. The English tradition developed the idea that the power of the crown was not absolute and that the monarch had to abide by certain customs and precedents vis-a-vis other groups in society. The political turmoil of the 17th century was, in part, a reaction against the monarch's attempt to claim authority in areas widely thought to be independent of the sovereign's control. The prevailing opinion was that the King and his agents were subject to a "higher" law which had precedence over royal degrees. In John Locke's *Second Treatise* we find the following statement describing the problem and how it can be resolved:
Freedom of men under government is to have a standing rule to live by, common to everyone of that society, and made by the legislative power erected in it; a liberty to follow my own will in all things, where the rule prescribes not; and not to be subject to the inconstant, uncertain, arbitrary will of another man. (Locke, 2nd Treatise, Sec. 22)

Locke's understanding of how standing rules would protect men from the arbitrary will of the state or of other men rested on two conditions. First, he argues for the existence of natural rights for men. That is, rights or guarantees which men qua men have naturally and which cannot be justly denied to them by government. And second, the state must acknowledge these rights by limiting its power in certain ways, particularly, to prevent any violations of these rights. The standing rule which Locke speaks of is "a rule concerning what the law ought to be", and, therefore, represents a meta-legal doctrine or a political ideal. (CL:206) They are principles which "forms part of the moral tradition ... (part of) a common ideal shared and unquestionably accepted by the majority". (CL:206)

Hayek, however, differs with Locke and other natural right theorists over the source and the status of these standing rules. Locke argued that human rights were part of the natural order of the universe and were similar in status to the laws of physics. They cannot be dismissed or ignored in the same way that we cannot ignore the law of gravity.
Natural rights in this sense are true a priori and, following Locke, are part-and-parcel of God's natural ordering of the world. From Hayek's perspective, Locke's natural rights theory came not from his reading of nature but from the prevailing norms and political opinions which had evolved in England of his own day. Hayek rejects a theory of a priori rules or rights in much the same fashion as he rejects a completely a priori notion of human knowledge. He even goes so far as to state that "none of the traditional rights of man (freedom of speech, press, religion, assembly or associate) can be, or ever have been absolute rights that may not be limited by general rules of law". (LLL3:110)

While "rights" may have some predetermined characteristics (viz, being general, abstract, known, and certain), their actual form may vary in time and place. Rules or laws, like cognitive categories, are a product of evolutionary development. They are not innate in man nor in nature itself. They evolve over time as men has learned how to confront and solve real world problems.

Equally important in this regard is his skepticism about the ability of human reason to "discover" and articulate the so-called rights of man. Again for Hayek this represents another form of extreme rationalism. After all, who is to interpret nature and what justifies their interpretation as authoritative? Why should Locke's list of
rights be accepted over another list? In fact, the acceptance of Locke's theory had very little to do with the epistemological authority his theory carried. Instead, the political question was resolved because Locke's views were "part of the moral tradition" of 17th century England and were "unquestionably accepted by the majority" of his day.

The theoretical foundation for the Rule of Law reached its apotheosis in 18th century Whig thought, especially in the work of the Scottish moral philosophers. They argued that government should be "limited by general rules of law" and that "severe restrictions (should be placed) on the power of the executive". (NS:124) Hume's skepticism about rationalism, and the important role he gave to the Rule of Law, provided a great deal of the intellectual grounding for the classical liberal view of government. It was taken a step further by Adam Smith's description of the market system and the limited, supportive role given to the market order by the state. Smith's contributions was in explaining how self-interested individuals "restrained by appropriate rules of law" come to promote economic prosperity. (NS:124–125)

By submitting to rules which are general, abstract, known, and certain, liberal societies have put themselves into a position to use the fragmented and limited human knowledge which characterizes modern societies. In allowing individuals a great deal of latitude in choosing personal
objectives, and the opportunities to reach them, the overall results have proven to be quite astounding. History, Hayek tells us, shows that societies which adhere to the Rules of Law generally tend to be politically free and economically prosperous; societies which flout the Rule of Law tend to be closed, arbitrary, and impoverished. (LLL1:58-59) Hence, by acknowledging the fact that we lack the knowledge and the capabilities necessary to restructure society as we might choose, the true liberal understands the important function played by the Rule of Law. Or put another way, our individual shortcomings are turned into social strengths when harnessed to a system of known and certain general rules.

Those who refuse to recognize the true nature of human limitations, Hayek warns us, will often see the Rules of Law as unduly confining. Yet Hayek is totally convinced that when the Rule of Law is ignored or falls to expediency, we will be unable to resist the tide of statism. Eventually, we will face a situation where we no longer have a government under law, but a government free to legislate, often arbitrarily, in all areas.

A few critical points about Hayek's conception of the Rule of Law need to be made. First, is it, at best, an ideal that nearly always falls short in its application, as the history of Black Americans demonstrates. Second, general and abstract rules can and do restrict individual freedom, for example, when the state legislates on moral
questions (abortion, sexual behavior, drug usage, and the like). A rule can be universal and abstract yet it can, in effect, restrict individual freedom in areas where their actions do not harm others (or even themselves). Laws against inter-racial marriages or certain sexual behaviors between consenting adults are laws of this type. And third, and even Hayek will admit to this, laws do tend to reflect the needs and interests of a dominant class. He states:

There is no doubt that in such fields as the law on the relations between master and servant, landlord and tenant, creditor and debtor, and in modern times between organized business and its customers, the rules have been shaped largely by the views of one of the parties and their particular interests — especially where, as used to be true in the first two of the instances given, it was one of the groups concerned which almost exclusively supplied the judges. (LLL1:89)

We are told that man is free if he needs to obey no person but the abstract laws of society. But if the laws tend to represent and protect the class interests of the master, the landlord, the creditor, and the businessman, the glossy veneer of the Rule of Law begins to fade. That is, if the law simply embodies the particular interests of the dominant class, the legal establishment can be as arbitrary and oppressive as the slaveowner's whip. This is especially true if, as it happens, the role of the judge, the legislator, and the slaveowner coincides.

Class interests, arbitrary application, and various restrictions on personal moral issues by the state, can and
do taint the idealized concept of the Rule of Law as worshipped by Hayek. The difference between theory and practice is quite disturbing in that it raises the question of whether the Rule of Law simply needs to be enforced better or if its class bias needs to be exposed and shown wanting. That is, when does it serve as an ingenious device to depict fairness, when in fact it serves the interests of a particular class?

While Hayek hopes that the Rule of Law will prevent arbitrary coercion for the sake of individual freedom, he concedes that "the rule of law will be effective only in so far as the legislator feels bound by it". (CL:205-206) With this in mind, we now turn to the issue of legislative practice in modern democracies and the danger Hayek sees in its present form.

Rules vs. Orders

As mentioned earlier, Hayek wishes to draw a clear distinction between the Rules of Just Conduct or the meta-legal moral principles which governs or guides a liberal society, and the particularistic orders issued by the state apparatus for the administration of daily activities. The former represent general rules applicable to all, whereas the latter tend to be specific and particular commands. Both are vital to the maintenance of a free society, but priority, Hayek insists, must rest in the Rule of Law. That
is, particularistic orders must not violate the higher principles of the general rules nor should they be given precedence over them. The crisis in modern democratic societies today, according to Hayek, is that "the distinction between law in the sense of Rules of Just Conduct and law in the sense of the expression of the majority's will on some particular matter" has been lost. (LLL3:25-26) Instead of maintaining a system of "government under the law" we have increasingly come to accept the unlimited power of the majority to pass legislative decrees which may violate the Rules of Just Conduct for the sake of short-term benefits. (e.g., cases of preferential treatment). Nowadays, Hayek laments, every legislative act is given the designation of "law", and is treated with the same status as the principles embodied in the Rule of Law. The effect has been a lost appreciation for the Rule of Law and its role in protecting a free society.

As we have slowly accepted the "right" of legislative bodies to "create law", Hayek feels we have also initiated the process of unchaining the state from the restraints which have kept it from abusing its monopoly of power. One fear that classical liberals and traditional conservatives share is what an unrestrained majority might do. The mere force of numbers, they feel, is not sufficient to guarantee the justness of any action even if it has the support of a sizable majority. The potential tyranny of the majority
motivated the authors of the U.S. constitution to invent many checks on majority power. They succeeded so well that it is possible to describe rule in the U.S. as rule by determined minorities. Hayek's fear emanates from the possibility that a majority may supplant the Rule of Law exposing a minority to capricious control. In Hayek's opinion the majority must be checked in using its power by limiting its use. Hayek claims that:

We can have a Rule of Law or a rule of majority, we can even have a Rule of Law made by a majority which also governs but only so long as the majority itself, when it decides particular matters, is bound by rules that it cannot change ad hoc. (LLL3:25)

We have the following possibilities: First, a system abiding by the Rule of Law which is not democratic; i.e. majority rule is not the method used in decision-making, yet, everyone is otherwise treated equally before the law. Second, a system of pure majoritarian rule where the majority is not restrained by the Rule of Law. Third, a system where a democratic process is in place, but where its scope is limited by the Rule of Law, especially when it comes to the treatment of minorities. And last, rule by a minority not restricted by law. While Hayek obviously prefers the third arrangement, and abhors the last, he is not so sanguine about unlimited democracy as to prefer the second option to the first. To Hayek the acceptance and the practice of the Rules of Just Conduct are more important than
the method by which rules are made. Therefore, we might conclude, Hayek would prefer to live in an undemocratic system but one accepting the sanctity of universal rules, than to face the constant danger of being part of a minority in a system based on unlimited majority rule.

In his *Constitution of Liberty* Hayek is quite adamant in showing that liberalism and democracy are not identical. Liberalism, he states, "is concerned mainly with limiting the coercive powers of all government, whether democratic or not". It concerns itself with this question: regardless of who exercises the public power, what should its limits be? The answer given by Hayek is that "whether the public power is exercised by an autocrat or by the people, it cannot be absolute: the individual has rights which are over and above any interference by the state". (CL:442-443) Democracy, on the other hand, raises the question of "who ought to exercise the public power?" And the democrat responds with affirming "the citizen body's right to control public power". The crucial point appears when addressing the liberal's concern about governmental restrictions. The democrat, Hayek says, "knows only one limit to government -- current majority opinion". (CL:442) By contrast, a true liberal wishes to restrict the use of governmental power so as to minimize the ever present coercive powers possessed by the state. The democrat (or the "dogmatic democrat" to use
Hayek's terminology) tends to view majority rule as "unlimited and unlimitable" assuming that good law is necessarily the opinion held by the majority. The error, of course, is to accept the premise that once power is in the hands of the people "there (is) no longer any need for limiting that power". (CL:107) Freedom, however, requires that every form of government must accept and submit itself to common principles of conduct and to the equal treatment of all before the law. Furthermore, even in a democracy the majority must submit to "these common principles even when it may be in its immediate interests to violate them". (CL:106) In a word, principles must not be sacrificed to expediency or to the passions of the moment.

While Hayek is certainly not an unconditional proponent of democracy, he does concede that it has certain advantages. He admits that it may be "the best method of achieving certain ends" if the limits to governmental power are in place. He feels that in most cases democracy is probably the most peaceful method of choosing from the alternatives placed before the public; and that is "more likely than other forms of government to produce liberty". (CL:108) Also, he is in full agreement with De Tocqueville's judgment that the public's educational level and their understanding of public affairs will be promoted by the utilization of the democratic process. Yet, with all of
this said, Hayek still places more faith in the decisions and practices which have evolved than with those produced by an electoral majority.

But it is Hayek's cautious and measured judgments about limiting democracy that others have dismissed. Today's politicians, in Hayek's view, refuse to acknowledge any limits to their rule, and are completely at ease with using their unfettered power. They have come to see their primary task as balancing the interests of various organized groups in society. The source of the problem is that we have given our representative bodies two altogether different tasks, namely, the articulation and approval of general Rules of Conduct and the power of directing governmental measures concerning particular matters. The differences between these two tasks has been lost, Hayek claims, such that today's "democratic assemblies exercise executive powers without being bound by laws in the sense of general rules of conduct it cannot alter". (LLL3:25) He goes on to say that "the ideal of democratic control of government and that of the limitation of government by law are ... different ideals that certainly cannot be achieved by placing into the hands of the same representative body both rule-making and governmental powers". (LLL3:25) One cannot expect the fox to be a good guard of the hen house.

The logic of the democratic electoral process is that legislators must respond to the wants and wishes of various
voting blocs if they want to remain in power. The elected official will have a propensity to say 'yes' to particular demands hoping to placate enough groups to assure a victory in the next election. Since their main concern is to form a large coalition of supporters, the elected official is in a situation of having to enact measures which give special treatment to various groups. That is, a tax break for the steel industry, price supports for farmers, a closed shop measure for the trade unions, more benefits for the elderly, and so forth. Policy is largely determined by a series of deals with special interests. In such "omnipotent assemblies," Hayek argues, they are concerned

mainly with particulars and not with principles, majorities are therefore not based on agreement of opinions, but are formed by aggregations of special interests mutually assisting each other. (NS::156)

Policy, in such a process, "is largely determined by a series of deals with special interests" and seldom considers the national interest. (NS:10) Hayek criticizes democratic pluralism, where groups bargain and compromise with each other to gain legislative support for their goals, because the sum total of all of these particular interests rarely, if ever, add up to the common good. In addition, the groups which prevail tend to do so at the expense of other, less powerful, groups. These less powerful groups are then made to pay for these special privileges granted by the legislative bodies. (LLL3:11)
The end result is that politicians and political parties are no longer guided by "principles but by the electoral logic of uniting around themselves a coalition of organized interests who can deliver sizeable blocs of voters in return for special favors". (LLL3:13) In time, the legislative body loses its sense of serving the entire community and its commitment to act according to universal principles for the long-run benefit of all. Instead of producing and improving upon laws which "aim at helping unknown people for their equally unknown purposes", today's legislative process reeks of protecting special interests at the expense of the general weal. The job of a "true legislator", Hayek tells us, "ought to be to say 'no' to all claims for special privileges and to insist that certain kinds of things simply are not done". (LLL3:29) The legislator must adhere to the principles embodied in the Rules of Just Conduct by refusing to extend special treatment or privileges to anyone or any group. Hayek fully believes that elected officials have an obligation to operate according to liberal principles, and that when the principles are in conflict with the needs of the moment or the will of the majority, the principles must be given complete priority. (Grave threats to public safety may, of course, justify temporary measures of expediency, e.g., in times of war).
The dilemma that Hayek identifies is a situation where it is extremely difficult for political parties and politicians to remain true to liberal principles (as conceived by Hayek) and to win elections. Hence, the pattern continues where principles fall to the exigency of offering short-term payoffs for future electoral successes. The danger Hayek sees in this development is the general weakening of the Rule of Law which in turn means the erosion of adequate checks on the power of government. At this point we flirt with the specter of pluralistic democracy and the rule by special interests.

This diagnosis may appear exaggerated and extreme to many. After all, how else do we keep our elected officials accountable than to give or to withhold our vote according to their actions on our behalf? And why should the wishes of the majority not be heeded by the government? Why should long-standing traditions or principles (some of which may be highly dubious in practice anyway) be elevated above the pressing needs of society?

Hayek acknowledges that in emergencies special arrangements may be necessary. But in normal times, any move to act in violation of the Rule of Law for short-run gains should be resisted. As the phrase implies, the benefits are short-term and, in Hayek's mind, are always at the expense of others who are asked (or forced) to carry the burden of giving special aid to select groups by the state. In any
prolonged period where rule by special organized interests becomes the norm, the result must necessarily be increasingly intense struggles between and among groups wishing to capture state power for the expressed purpose of using it to maintain their privileged treatment vis-a-vis their competitors. That is, instead of government being the neutral agency for the protection of all individuals from violence, coercion, fraud, and monopoly; the state now becomes the tool of a privileged few to use violence, coercion, fraud, and monopoly for their own ends. Ideally then, the liberal state must be totally divorced from using its power to selectively help one group at the expense of others. Individuals and groups are only to be accorded equal treatment under known, certain, and general laws with the state taking no interest in who has been able to use the rules to their advantage. So long as the game is played fairly, all players, apparently even the losers, will prosper in the long-run. Hayek is convinced that the liberal political order -- an order regulated by the Rule of Law and where the government's main task is the enforcement of such rules -- while not ideal, is the best of all possible worlds.

But if the liberal political order is being assaulted by various dogmatic democrats, special interest groups, and unprincipled politicians, what needs to be done to correct this "miscarriage of the democratic ideal"? Obviously, we need to restore the vital distinction between the law of
liberty (nomos) and the law of legislation (thesis); or the
Rules of Just Conduct and the rules of orders concerning
particular, administrative matters. The only way to keep
these two domains separate is to keep the legislative assem­
bly from having both responsibilities. The power of laying
down laws (nomos) and the governmental power of issuing
directives (thesis) must be separated.

A Model Constitution

Hayek's proposal for institutionalizing this separation
is a novel one. He argues for the creation of "two distinct
representative bodies whereby law-making in the narrow sense
as well as government power would be conducted democrati­
cally, but by different and mutually independent agencies".
(LLL3:107) The lower assembly would act in a fashion
similar to most of today's democratic assemblies. This
governmental assembly would have "full power over the appa­
ratus of government and all the material means put at its
disposal"; it would serve as a forum in which particular
interests could be represented; and there would be the
familiar process of political parties working to form a
majority "capable of governing" and "committed to a pro­
gramme of action". (LLL3:112) Hayek claims that the govern­
mental assembly would be the "complete master in organizing
the apparatus of government and deciding about the use of
material and personal resources entrusted to the govern­
ment". (LLL3:114) Its actual power would be limited only
by "the Rules of Just Conduct laid down by the legislative assembly, and that, in particular, it could not issue any orders to private citizens which did not follow directly and necessarily from the rules laid down by the latter". (LLL3:119)

The legislative assembly, which serves as an upper house, is the novel component of Hayek's plan. This body would ideally operate independently of particular interests, pressure groups, and the corrupting effects that re-election pressures place on a politician. This body's primary task would be "to reflect on the principles of government" and to concern itself with protecting and elaborating upon the general Rules of Just Conduct. In particular, they would see to it that the regulations enacted by the governmental assembly concerning, say, taxes, health and safety regulations, or commercial and criminal law, are in the general interest and are stated in the form of general rules. Released from the burdens of having to deal with highly technical matters associated with administration, they would have ample time to seriously study the properties of the Rule of Law and its role in promoting individual liberty and economic prosperity. Divorced from the hectic demands of "delivering the goods", they could immerse themselves in deliberating upon the law.

Hayek's vision of this upper house deserves an extended quote: it would be
... an assembly of men and women elected at a relatively mature age for fairly long periods, such as fifteen years, so that they would not have to be concerned about being re-elected, after which period, to make them wholly independent of party discipline, they should not be re-eligible nor forced to return to earning a living in the market but be assured of continued public employment in honorific but neutral positions as lay judges, so that during their tenure as legislators they would be neither dependent on party support nor concerned with their personal future. To assure this only people who have already proved themselves in the ordinary business of life should be elected, and the same time to prevent the assembly's containing too high a proportion of old persons, it would seem wise to rely on the old experience that a man's contemporaries are his fairest judges and to ask each group of people of the same age once in their lives, say in the calendar year in which they reach the age of 45, to select from their midst representatives to serve for fifteen years.

The result would be a legislative assembly of men and women between their 45th and 60th years, one-fifteenth of whom would be replaced every year. (LLL3:113)

Upon reaching forty-five everyone would have the right to stand for this office and to select from among one's own cohorts members to this assembly. Predictably, this honor and responsibility would fall to the crème de la crème -- the best and the brightest from one's peer group. They would undoubtedly be individuals of some repute and success, those highly regarded by all. Just as obvious would be their general overall support for the present system since it would be unlikely that those with reputations as malcontents or as rebels would be elected. And even if a few were, the slow change in its make-up would work against a
sustained radical change in its character. To say that this body would act as a "conservative" force is to state the obvious and to appreciate Hayek's intention. The body's explicit purpose is, quite simply, to protect the Rule of Law from "corruption" by democrats and dictators alike. Hayek is banking that these individuals will be motivated by principles and not by reasons of expediency. If so, Hayek sees them as stemming the tide against the dangers he finds inherent in unlimited democracy and unrestrained authority. Their principle power would be twofold. First, to aid the slow and prudent development of the Rule of Law, and second, to wield a veto power over the impetuous lower house if their actions violated universal principles.

It is interesting to note the many similarities his plan has with Plato's nocturnal council described in *The Laws*. Both contain large elements of elitism and a general contempt for democracy and mass politics. In both we find authority placed in the hands of a cadre of elites who are more or less immune from public scrutiny or accountability. And once in power, they become, in effect, the guardians of the system and the fount of human wisdom.

An implicit assumption on Hayek's part is that these men and women would eschew constructionistic rationalism. This clearly is a *non sequitur*. While they may wish to preserve the status quo, merely as successful products of the system, it does not follow that they would not succumb
to the hubris of rationalism once crowned philosopher-kings. Once in office it is uncertain how they will act when the pressures of electoral politics, accountability, and financial worry are removed.

But there is another major problem with Hayek's proposal. If we follow the logic and the intent of his suggestion the end result must be the use of coercion by the upper house. If such a body came into existence in a modern-day Western state, Hayek would expect it to strip away many of the social and economic gains which have been legislated into law by the popular assembly. To illustrate what might happen under such a proposal, it is quite possible that workers could lose all of the rights, guarantees, and protections they have been extended over the years. Since, in Hayek's mind, most labor legislation unduly protects only some workers and limits the freedom of others, and that it disrupts the smooth operation of the market, most of it should be repealed. Such measures as minimum wage laws, seniority, safety regulations, the right to organize, and collective bargaining, might well disappear. But to do this would certainly amount to coercing workers by forcing them to return to the days when management had unlimited power over the workforce and the workplace. While Hayek would call this the restoration of the competitive labor market,
to millions of working people it would force them back into a dog-eat-dog world with their fellow workers, and into a powerless position with their employers.

So to restore or to create Hayek's ideal conception of a liberal state with this body of elders would require a fair amount of coercion to dismantle a vast number of programs and protective measures which people have come to see as their proper and just rights as citizens. But another difficulty develops with his desire to undo the legislative measures associated with the welfare state. If, as he seems to suggest, social practices and institutions should evolve, why then must we resist or repeal the forms of social organization which have evolved in the U.S. over the past fifty years? On Hayek's own terms, we are allowed to experiment with new forms of living, and to make the necessary adjustments. Many Western governments are doing exactly this with their various welfare programs and state-guided economic policies. They are still learning how to do these things, and it may take many decades of experimentation to do them successfully. (after all, it took centuries for liberalism to develop and perfect its basic form, so why not expect the welfare state to flounder for a time until it solves its own problems). But Hayek is not interested in experimenting with other forms of governments or social organizations which deviate from his own notion of liberalism. Evolution is only to be praised after the fact, once liberal practices
have come into being. Once they have "evolved," the process is apparently no longer suitable to reshape human institutions or processes. His rejection of all new forms of social organization (along socialistic lines) is probably the same attitude held by those resisting the rise of liberalism in the 18th and 19th centuries. Hayek, like those who resisted change 300 years ago, is concerned primarily with preserving a particular system, and not with attempts at further improvement. Again, his judgment is that the liberal order is necessarily superior to alternative forms. It seems rather silly for Hayek to think that we have found, for all time, the ideal form of social organization in the liberal era, and that nothing better could evolve to replace it. This is not to say that whatever might replace liberalism must be an improvement, but only to say that there is no reason why an improvement should be ruled out. What Hayek is advocating with his model constitution is a means of checking further evolutionary changes by creating a mechanism which can prevent change. We will conclude this chapter by analyzing Hayek's views concerning the proper duties that a state should possess; those duties that should not change.

The Legitimate Tasks of a Liberal Government

If good rules of social organization are to evolve, and if our economic well-being is to be maximized, it is essential that the powers possessed and used by the state do not
cripple the spontaneous orders which aid in their development. This is Hayek's basic rule concerning the proper way government should operate. The Rules of Just Conduct and the market order are the fragile products of human actions. Hayek is convinced that they are threatened by the ill-fated desires of many who wish to replace spontaneous orders with constructionistic, state-sponsored, organizations. Critics of spontaneous orders are, in his view, unable or unwilling to appreciate their long-term contributions to human progress; instead, they only find fault with these processes. They only seem to see these orders as being chaotic, coercive, or unfair. To compensate for these shortcomings, they argue for more governmental regulations and planning. The result is that most Western governments today have accepted the responsibility of addressing and solving a plethora of social problems and needs. Associated with these tasks, obviously, comes an expansion in the scope of state power deemed necessary to solve them.

Coercion and organization are antithetical, in Hayek's view, to freedom and spontaneous orders. One condition or the other tends to exist at the expense of its opposite number. Therefore, from this perspective, the state invariably poses a threat to individual freedom. Yet, unless one exhorts anarchy, we know that the state can play a valuable role in safeguarding freedom. The dilemma has always been to specify its proper powers and to ensure means of
restricting the state solely to serving those purposes. On the issue of coercion, Hayek feels that a government can only use it when it comes to enforcing the general rules of conduct. Whenever the state employs coercion in the manner of treating individuals or groups unequally (i.e., singling them out for special treatment or ill-treatment), it is totally unjustified in doing so. Hence, any services rendered by the state, or duties demanded by the state from its citizens, must be abstract and universal in their application. The state can tax its citizens to raise revenues for appropriate projects (say, the national defense) so long as everyone is taxed at the same rate. The state may build a highway with public funds provided that all citizens have the same right to use the roadway.

Hayek's writings over the years show various attempts to provide the obligatory checklist of legitimate governmental service tasks. Many of the tasks remain constant, some disappear and, at times, a few new ones are added. At times he is rather definite and rigid in listing the proper services, yet at certain times his concept of "collective goods" becomes quite expansive.

In *The Constitution of Liberty* he restricts governmental services to those "which otherwise would not be supplied at all" by the market. (CL:222) In particular, he mentions a reliable and efficient monetary system, a standard of weights and measures, an information service
handling surveying, land registration, and statistics, and "the support, if not also the organization, of some kind of education". (CL:223) Along with the enforcement of the Rules of Just Conduct, the state is given the responsibility of providing ancillary support to help individuals acquire "reliable knowledge about facts of general significance". (CL:223) If we are to be secure in life, it requires that individuals are given a number of guarantees. We need assurances that contracts will be enforced; that weights and measurements of commercial life are honest; and that the foods and drugs we purchase will not kill us. In addition, the state may have the power to certify particular professions to assure us that they satisfy some minimum standard of competence, but they may not exercise any control over the supply within any profession. Without such state controls, the condition of social life would be highly uncertain and, more than likely, characterized by social violence.

Other proper services fall under the rubric of what Hayek calls "collective goods", i.e., those goods or services which are vital to the success of the spontaneous order but not likely to be provided except by public action. In this category we find the provisions for national defense; the construction and maintenance of roads, bridges, health and sanitary services, and measures to protect us from pollution. Far from advocating the minimal state or
the prudent advice of "buyer beware", Hayek states that it is "unquestionable that in an advanced society government ought to use its power of taxation to provide a number of services which for various reasons cannot be provided, or cannot be provided adequately, by the market". (LLL3:41) In volume three of *Law, Legislation and Liberty* Hayek even states that:

The assurances of a certain minimum income for everyone ... appears not only to be a wholly legitimate protection against a risk common to all, but a necessary part of the Great Society in that the individual no longer has specific claims on the members of the particular small group into which he was born. (LLL3:55)

Only on rare occasions does Hayek allude so favorably towards welfare provisions. In the above passage, he appears to acknowledge that society may have a responsibility to aid individuals who fail to make their way in a market order. Once the traditional support groups, like the nuclear family, disappear with the advent of industrialization, a new guarantor, namely the state, may be considered. Such programs, if we are to take Hayek seriously, would again have to pass the test of universality and abstractness ("protection against a common risk to all", "minimum income for everyone"). Such proposals might resemble Friedman's negative income tax plan which provides for the needs of those at the bottom of the economic ladder while remaining abstract and universal in its application.
Concerning regulations on health and safety, building codes, food and drugs, and protecting the environment from pollution; it is possible to envision a fair amount of government intervention without violating liberal principles. The rub comes not so much with the scope or the aims of the welfare state, but with the particular "methods" which have been used by the state to accomplish these aims. He states that:

All modern governments have made provisions for the indigent, unfortunate and disabled and have concerned themselves with questions of health and the dissemination of knowledge. There is no reason why the volume of these pure service activities should not increase with the general growth of wealth. There are common needs that can be satisfied only by collective action and which can thus be provided for without restricting individual liberty. ... There is little reason why the government should not also play some role, or even take the initiative, in such areas as social insurance and education, or temporarily subsidize certain experimental developments. Our problem here is not so much the aims as the methods of government action. (CL:258)

Unfortunately, we are left with a tantalizing statement that government might be able to play a major role in various areas, but little advice about how. In fact, as far as I can tell, Hayek generally disapproves of all governmental efforts utilized so far to help aid those who are in need. To his mind, these programs and efforts tend to increase the coercive power of the state, produce an
unhealthy degree of centralization and bureaucratic over-kill, and leads to the "unequal treatment of different people which is irreconcilable with a free society".  
(CL:259-260)

In effect, Hayek is saying that the proper methods of achieving the legitimate aims of a modern state have yet to be discovered. So far, all experiments have been either too quickly devised and implemented without assessing the negative outcomes (inflation, dependency, deficits) or, they tend to directly violate liberal principles. Whenever deliberate controls have been employed by planners, be it to regulate the economy or to provide welfare measures for the poor, liberty, Hayek feels, tends to be sacrificed. For the most part state planning and individual freedom remain as are mutually exclusive propositions in Hayek's scheme of things.

We have ended this chapter on Hayek's political theory with a brief discussion of the modern welfare state. In this regard, the threat to freedom today comes not from 'hot socialism' but from welfare statists who wish to address the claims of "social justice". Motivated by this call-to-action, politicians, intellectuals, and opinion-makers alike, feels have come to undermine the Rule of Law, spontaneous orders, and the important checks limiting state power. It is to Hayek's contempt of the phrase "social justice" that we now turn.
NOTES

1. See DeCrespiony, (29:58)


3. For a comprehensive discussion of the historical development of liberalism see Hayek's "Liberalism" in SP pp. 119-151.

4. E.G., see CL p. 222-224; LLL3:43-64.

5. The most notable deletion is the control of the monetary system by the government. Hayek feels that the temptation to destroy the value of money is too appealing. Governments simply print more and more banknotes to cover their debts causing runaway inflation. Today he advocates a private competition in currency. He states that "we shall not get a decent money until others are free to offer us a better one than the government in charge does"; and "the history of money shows that no government that has direct control of the quantity of money can be trusted for any length or time not to abuse it". (LLL3:58)
"In respect of riches, no citizen shall ever be wealthy enough to buy another, and none poor enough to be forced to sell himself"

- J. J. Rousseau

Some people are only happy when they have an enemy to fight. Hayek has had his share of foes over the years. In the thirties it was social planning, in the forties and fifties it was creeping socialism, and later it became Keynesianism and the welfare state. In the seventies, however, the focus of his attention turned to social justice as he attacked the notion itself and those who employed the phrase in public life.

The basis of his attack is twofold. First, he feels that those who speak of social justice appropriate and use the phrase as a positive moral term, but they do so without having a clear and concise meaning in mind when they use it (e.g., "the people cry out for social justice"). Second, he believes that it has become a misleading catch-phrase used by politicians and intellectuals to garner support for their particular political objectives (e.g., social justice demands that we do X). That is, Hayek sees it as a rhetorical device used by particular groups to get their interests
accepted and blessed by cloaking them in favorable moral terms. While there is some truth in what he says, there are times when an appeal to social justice is legitimate.

In this chapter I will explain the basis of Hayek's objection to the notion of social justice by contrasting it with his own view of justice. I will show that his support for commutative or market justice is tied to his particular views about man and the nature of social responsibility in a capitalistic order. While market justice has some of the necessary elements of a just system, it can be shown deficient in many ways. As we will see, his concern is primarily with a just process in that he is unwilling to evaluate the outcome or the result of the process itself. He attempts to ward off any questions about the market distribution of benefits and burdens because by raising such questions suggests that the outcome is unfair or unjust, and may require some adjustments or redistributions. Associated with this point is my contention that modern liberals must be concerned with market distributions because they do have a direct bearing on the availability of substantive justice to those living in a liberal democratic society. I hope to show that his libertarian notion of market justice and "protective democracy" falls short of the liberal promise of helping men to fully develop their human powers, talents, and abilities, so that they can pursue meaningful lives with real options and choices.
To make this point, I will contrast his notion of market justice with a view of society and justice held by thinkers I will label liberal egalitarians; a group who talks seriously about the need for social justice. In doing so I hope to show the deficiencies of Hayek's formalistic brand of liberalism, and how this second group is able to meet Hayek's challenge to give a useful meaning to the idea of social justice within the liberal tradition.

The Mirage of Social Justice

Hayek levels his most aggressive attack against the idea of social justice in the second volume of Law, Legislation, and Liberty subtitled "The Mirage of Social Justice". He feels that the demand for social justice has now become the leading shibboleth of our age because virtually every political or economic argument over policy inevitably includes an obligatory appeal to the demands of social justice. He feels we are constantly being admonished that social justice requires we must do this or that without consideration of the consequences of doing so. In fact, the term has acquired, illegitimately for Hayek, the connotation of being synonymous with goodness and righteousness to the point where we can no longer critically assess what the term means to those who so freely use it. Hayek dresses down those who speak so elegantly of social justice by claiming that:
... much of what is today done in the name of 'social justice' is ... not only unjust but also highly unsocial in the true sense of the word: it amounts simply to the protection of entrenched interests. (LLL2:96)

To underscore the danger he associates with the general ascendancy and acceptance of this phrase, Hayek becomes quite vehement in his broadsides. For example,

- The term social justice (is) entirely empty and meaningless (LLL2:XII)

- (Appeals to social justice are) hollow incantations (LLL2:XII)

- The phrase 'social justice' ... has become a dishonest insinuation that one ought to agree to a demand of some special interest which can give no reason for it. (LLL2:97)

- The present universality of the belief proves no more the reality of its object than did the universal belief in witches or the philosopher's stone. (LLL2:xii)

- The term is being used to disguise envy in the respectable garment of social justice. (CL:93)

But he wishes to do more than simply point out the mirage-like quality of the phrase. If it were merely the case of people mouthing vacuous phrases, he would not be so disturbed. However, the phrase begins to take on a real significance once it is understood as a demand for redistributive or economic justice. At this point the phrase implies that there is an unjust distribution of the benefits and burdens found in a society and that a change in the pattern of economic distribution (or the system itself) is desirable. It is a demand, Hayek claims, "that the members
of a society should organize themselves in a manner which makes it possible to assign particular shares of the product of society to different individuals or groups." (LLL2:64)

Those who speak strongly about social justice are often attacking the distribution of benefits and burdens in a market system. There comes from many quarters a strong feeling that the market distribution of economic goods and bads is unfair and morally unjustifiable. Or as one critic of the income distribution pattern in the U.S. has put it: "The current range in annual income ... (is) excessive and intolerable, impossible to justify rationally, and plain inhuman". (138:30) The objections to market distributions typically takes one or more of the following forms I have depicted below.

1) The rich do not deserve their wealth because they have not produced it themselves. Much of what they have comes from exploiting others (paying them less than what their labor is worth) and expropriating their rightful share of the total product. This is brought about by their ownership and control of the means of production which allows them great power to dictate the terms of work and what is produced.

2) Rewards in a capitalistic system do not conform with any acknowledged moral principles of distribution. Such factors as need, merit, skill, or contributions, which should be considered in the distribution scheme of things are often times ignored. In capitalism rewards appear to go to the greedy, the ambitious, and the ruthless individuals operating in society. Or, in other words, the market distribution cannot be justified from a moral point of view.

3) Market distributions tend to create gross inequalities in material resources which denies to many the wherewithal to meet their most basic human needs.
One's needs are only met if one has the ability to pay for them. If a person or his family is unable to pay the market price for a basic need, they must forego the need or else rely upon the goodwill of others. Opponents suggest that there is a social obligation to provide for the needs of others regardless of their ability to pay.

4) While scarcity in some form will always be with us, in today's modern industrial societies there seems a surplus of wealth such that all basic human needs could be provided for. Consequently, it is morally indefensible for such a society not to provide all citizens with a basic standard of living.

5) To claim that freedom of choice (the absence of coercion) characterizes market relations is extremely naive. In truth, real choices and real alternatives are not to be found. Proponents of capitalism have always, it is said, inflated the amount of real choices individuals have, failing to appreciate that pressing daily needs as well as other constraints severely limit one's choices. Hence, while freedom of choice may exist in a formal sense, actual freedom may not be widespread.

6) Economic inequalities and asymmetrical relationships in the market system can and do undermine the ability of many to avail themselves to the liberal values of equal opportunities, political equality, and equal human dignity. If one is lacking in basic material or human needs, one may be effectively unable to take advantage of or to realize these rights. To claim that all men have equal opportunities in a world of vast economic inequalities is to grossly minimize the importance of family background, education, and all that money can buy in the way of advantages. Such "opportunities" and "freedoms" become formal and largely hollow, if not a direct insult to the dignity of those at the bottom of the economic ladder, when used to defend the market order and its form of justice. As such, there may be a pressing need to guarantee to all citizens a right to a basic standard of living before the other liberal values (political and moral equality) can be seriously spoken of.
While this is not an exhaustive list of the charges levelled against liberal-capitalism, it does serve as a springboard for those interested in advocating redistributive measures. Each of the six points above provides possible grounds for questioning the consequences associated with economic inequalities found in capitalistic societies, and for wanting to minimize the extent of inequality they foster. Hayek admits that market distributions often result in great economic inequalities. However, paraphrasing Churchill's quip about democracy, Hayek claims that market justice provides the worst kind of justice, except for all of the other forms of justice devised by men. We begin our discussion of justice with Hayek's defense of commutative justice.

**Commutative Justice**

Hayek juxtaposes market justice or commutative justice against all other conceptions of distributive justice. Commutative justice is defended as being commensurate with the primary value of personal freedom and its institutional brother, the Rule of Law. In addition, so long as the market process of exchange is found to be in accordance with fair rules, we cannot morally question the outcome of the process. While we may not like the distribution from our own personal perspective, in Hayek's view, a pattern
produced from a just method cannot be judged from a moral point of view. In what follows I will try to explicate Hayek's arguments for this position.

In The Constitution of Liberty Hayek explains that:

During the last few generations certain new aims of policy have emerged which cannot be achieved within the limits of the Rule of Law. A government which cannot use coercion except in the enforcement of general rules has no power to achieve particular aims that require means other than those explicitly entrusted to its care and, in particular, cannot determine the material position of particular people or enforce distributive or 'social justice'. (CL:231)

He continues by stating that:

The restrictions which the Rule of Law imposes upon government thus precludes all those measures which would be necessary to insure that individuals will be rewarded according to another's conception of merit or desert, rather than according to the value that their services have for their fellows. ... Distributive justice requires an allocation of all resources by a central authority; it requires that people be told what to do and what ends to serve. Where distributive justice is the goal, the decision as to what the different individuals must be made to do cannot be made in the light of the particular aims and knowledge of the planning authority. ... This conflict between the ideal of freedom and the desire to 'correct' the distribution of incomes so as to make it more 'just' is usually not clearly recognized. But those who pursue distributive justice will in practice find themselves obstructed at every move by the Rule of Law. They must, from the very nature of their aim, favor discriminatory and discretionary action. ... Within the limits set by the Rule of Law, a great deal can be done to make the market work more effectively and smoothly; but within these limits, what people now regard as distributive justice can never be achieved. (CL:232-233)
Market exchanges, or exchanges guided by commutative justice (namely, the free entry by all into and out of the market, the free exchange of goods and services, and the fulfillment of contractual obligations) embody the basic thrust of the Rule of Law; that is, rules which are universal, impartial, and independent of particular ends. When exchanges take place under these conditions, we have the libertarian principle of justice expressed in the following formula:

"From each as he is able to choose, to each as he is chosen by others".2

This formula according to libertarians presents a notion of justice based on maximizing individual liberty. We are free to decide whether or not we wish to engage in market exchanges with others, to what extent, and on what terms. In turn, we may receive in market exchanges only what other individuals have freely chosen to give us in return for something they value. The terms of all such exchanges are made, in theory, by two or more independent parties who apparently are not forced into making a particular exchange and, therefore, only enter into the exchange for mutually advantageous reasons. Consequently, the level of wealth or income we come to possess does not result from the coercion of others. If we are rich or poor, it is because many free and autonomous traders have, on their own volition, decided to exchange or not to exchange their
valuables with us for goods or services we can offer them. The distribution which results from the market process is not a patterned one; that is, it does not follow or resemble any preconceived notion of what a proper, fair, or just distribution should look like.\(^3\) Pattern principles, we are told, violate both the free exchange principle of commutative justice and the end-independent tenet of the Rule of Law. For Hayek, to move away from accepting whatever patterns are created by the market process to any other pre-determined pattern based on any other principle (merit, need, utility, or equality) is to initiate and sanctify state coercion in economic life. Freedom, it is said, is lost when the government can enforce patterns.

Of course the market arrangement depicted above is highly idealized. In reality the market procedure is an abstraction based on many dubious assumptions. For example, if the choice is between job X at such and such a wage or starvation, do we really have much of a choice? Similarly, what freedom does a worker have when he is presented with the option of working more hours for a lower wage or of finding another job? A worker having only his labor power as a marketable commodity soon finds himself in an asymmetrical power relationship with his employer. True, you do not have to sell your labor to him, but the range of viable options is much smaller than market proponents like to admit.
Critics of the market process argue that if we are to be free in such exchanges, it would require that all parties must have many viable alternatives from which to choose. Furthermore, if someone refuses to be a party to any transaction he should not be seriously harmed in doing so. Too often, it is said, the market seems to offer very few meaningful choices to the majority of participants. On the other hand, to expect a full range of meaningful choices for everyone may be equally idealistic and utopian.

Of equal interest is Hayek's claim that the market's distribution cannot be subjected to normative evaluations. The market process, he tells us, is a classic example of a system based on pure procedural justice. Under such a system the outcome is accepted if the participants have followed the rules agreed to beforehand. If the market game is played according to the rules, (i.e., without fraud, monopoly or violence) the outcome, regardless of what it is, must be accepted. As in a fairly run foot-race, where the prizes go to the swift, the market rewards those who "best serve their fellows". Sometimes the result may be judged as unfair, for example, when one person becomes a millionaire through sheer luck. But, so long as this person did not violate any of the procedural rules which everyone has been equally subject to, his enrichment only indicates that, for
whatever reason, he has delivered something of value to others. This result, libertarians claim, has to be accepted if not praised.

As for morally condemning the outcomes of the market procedure, Hayek finds such claims to be at best meaningless, and at worst socially detrimental. He claims that "in a free society in which the position of different individuals and groups is not the result of anybody's design ... the difference in reward simply cannot meaningfully be described as just or unjust". (LLL2:70) When we ask "the question of who has been unjust ... there is no individual and no cooperating group of people against which the sufferer would have a just complaint". (LLL2:69) By contrast, if the deliberate or willful actions by someone or some group has impoverished a person, then we could rightly speak of an injustice being done. But if equal opportunities and treatment are given to all, and if uniform rules are followed, then the "impersonal process of the market" cannot be judged unjust if someone is left with nothing. So long as "the results (were) not intended or foreseen" by anyone, Hayek believes that "they have no complaint against society". (LLL2:70) The distribution affected by the market is impersonal and the remuneration individuals get simply follows from how others have valued their contributions. Reward is completely independent of intentions, moral worth,
or personal need; the criteria is based solely on how individuals subjectively come to evaluate economically what others can offer them. Questions of justice apply only to the conduct of the participants involved. If the conduct is above reproach, then the outcome of various individuals engaged in the process cannot be questioned.

In this context Hayek feels that the market process "is wholly analogous to a game, namely a game of skill and partly of chance". It proceeds:

According to rules guiding the actions of individual participants whose aims, skills, and knowledge are different. (The outcome is) unpredictable (and of course) there will be winners and losers. (And) while in any game, we are right to insist that it be fair and that nobody cheat, it would be nonsensical to demand that the results for different players be just. (LLL2:71)

The trouble with Hayek's understanding of justice is its time focus. He wants us to look only at what is happening currently when evaluating the distribution process. We are not to evaluate what went on before the process, or what goes on after the process. Yet these things do affect tomorrow's distribution of goods and bad, and should be addressed when considering the issue of justice. Hayek prefers not to ask how different individuals come into wealth or fall into a state of poverty. We are to assume, I gather, that their particular positions were also the result of some fair, neutral process when, in fact, their resources, or lack thereof, may have stemmed from illegal,
unfair, or questionable events in the past. We know, however, that these past occurrences continue in the future to affect who gets what in the market process.

In the same light, we are not to question how actual distributions will influence the future chances of various people. The distribution, Hayek wants us to think, is simply an undesigned product of luck, hard work, imagination, and above all, our ability to discover and deliver what other individuals need and want. To raise the point that some individuals have fared rather poorly is not an important social issue for Hayek. The fact that some individuals have suffered past injustices, like discrimination, or that others benefit because of ill-begotten advantages, does not worry him a great deal. But there are many past injustices, as well as many current ones, that cannot be addressed or rectified by the "neutral" market order or the Rule of Law. Because of this, the issues of compensation and redistribution are rightly raised by those who speak of social justice.

While markets, laws, and institutions, may appear to be neutral entities (and this is a highly questionable assumption), we know that the people who operate in them, and through them, are not. Individuals can be vengeful, bigoted, and biased, among other less desirable human traits. Unfortunately, putting them into the "neutral" market order doesn't make them any less so. While we may
wish to debate whether or not the actual market distribution is, per se, unfair; the real injustice lies in assuming that an abstraction like the market produces nothing but unobjectionable outcomes. Slavery, racism, sexism, and wars of aggression, have occurred in and between societies with market systems. Regardless of how many times market proponents repeat their sacred mantra (if we are all treated equally, the result must be just) saying it doesn't make it true.

The Meaning of Social Justice

David Miller states that in general, social justice concerns the distribution of benefits and burdens throughout a society, as it results from social institutions -- property systems, public organizations, etc. It deals with such matters as the regulation of wages and (where they exist) profits, the protection of person's right through the legal system, the allocation of housing, medicine, welfare benefits, etc. (109:22)

These benefits or burdens are felt to be a matter of social concern (unlike that of a market order) because, for whatever reasons, they have been either unfairly distributed by social institutions or processes, or poorly distributed to certain individuals to meet their needs. In either case, the feeling is that some action is due to correct the situation. Hayek is willing to accept any distribution coming from a system characterized by free markets, equal opportunities, and equality before the law; many others worry about the effects that material inequalities produce.
Critics of the market order are troubled by the real world advantages and disadvantages which accompany vast differentials of wealth and income. Typically the reaction is that the rich do not need all that they have, and that the poor need more, so why not shift resources somewhat to make sure no one is left to suffer needlessly. As such, social justice raises the issue of economic redistribution.

Over the years, various principles of redistribution have been considered; the most prominent ones being merit, equality, need, rights, and work. Hayek, as we know, objects to turning the state into a tax collector for redistributive purposes, or allowing the state to become the sole dispenser of monies, goods, or services to those deemed worthy or needy. This, he argues, gives the state too much power and control over its citizenry. Redistribution schemes typically call for a preconceived pattern of how benefits and burdens are to be dispensed. One such pattern, for example, would be an equal distribution of material goods throughout society. Or, a distribution that places a ceiling on income earnings along with a guaranteed minimum income floor below which no one would fall. But Hayek objects to such non-market distribution plans for the following reasons.

Economically, he feels that moves to equalize incomes or wealth would negatively affect the incentives to work, productivity, and efficiency. And, in the end, such efforts
might lead to major changes in a society's economic structure, namely, towards socialism. However, the exact nature of the trade-off between equality and efficiency is not known. While a move to absolute equality may harm efficiency, studies suggest that modest egalitarian measures do not greatly reduce productivity or the incentives to work. In fact, a number of countries where redistribution programs have reduced inequality, there has been no noticeable decline in productivity.

Politically, redistribution programs have the potential of giving the state great control over the economic, and consequently the personal, life of its members. Yet, in many market societies, private individuals and corporations assisted by the state wield a great deal of control over the average citizen. Through their control over economic resources, they can control the wage structure, the terms of employment, and the degree of security or insecurity of the majority who live from paycheck to paycheck. There is no reason to think that a person will necessarily be less free under a system opting for greater equality than in a market system where great economic inequality prevails. One could argue that a greater sense of personal freedom might well exist when economic security is provided, and where economic power is subject to greater democratic control.

In addition, many redistribution proposals, like those based on merit or desert, Hayek feels are predicated on
knowing a great deal about the motives and intentions of individuals. Here he uses his view about human knowledge — its limited scope — to raise suspicions about deciding who deserves or merits what. He states that:

To decide on merit presupposes that we can judge whether people have made such use of their opportunities as they ought to have made and how much effort of will or self-denial this has cost them; it presupposes also that we can distinguish between that part of their achievement within their control and that part which is not. (CL:95)

But this argument is misdirected. More correctly, the issue is whether individuals have a right to certain basic needs to have a fulfilling, or at least not a deprived, life. While it might be difficult to zero-in on what individual attributes deserve to be rewarded, we should be able to agree that in an advanced industrial society all human beings have a **prima facie** right to certain basic needs. And, in fact, they may need them simply to ensure that they get equal treatment, opportunities, and political rights, on the same level with those citizens more fortunate; but more on this point in the next section.

Lastly, from a methodological point of view, Hayek asks if it makes sense to submit a claim of injustice against society, or to say that society owes certain economic rights to its members. Since "society" is, according to Hayek, a fictional concept, he feels that it is nonsense to say or to claim that society has been unfair to an individual or group. (CRS:95-98; LLL2:64) Hence, the entire notion of
social justice becomes a moot point. If you have a legal or moral claim it must be against another individual and not against society. But Hayek is wrong on this point. Does it make sense to say that societies commit wrongs and that societies sanction unfair treatments? If a bus driver orders a black to sit in the back of a bus or to give up his or her seat to a white, do we simply say that the bus driver is discriminating against blacks? In a way, yes; but actually the driver is enforcing society's standards. Individuals may be prejudiced, but it is society's willingness to support and institutionalize such public wrongs which have to be attacked. Various laws, court rulings, and social practices, have to be changed by demonstrating that society's institutions and practices are wrong and unjust. Slavery, as an institution, is not eliminated by taking one slave owner to court when the legal system is a willing accomplice to the social practice of slavery. Laws of a society can be wrong and unjust and change only comes by challenging them and showing them to be unjust. Who was to blame in maintaining the social hypocrisy of the "separate but equal" doctrine in the U.S.? Of course, this policy was carried out by individuals, but it was invented, sanctioned, and reinforced by Supreme Court decisions, by local school boards, and by state and federal statutes. And, needless to say, these factors greatly affected how American blacks would fare in the so-called "neutral" market process. In
other words, these social institutions and arrangements precluded and probably guaranteed that certain individuals and groups would not get equal treatment or be judged "blindly" by the economic system. If the market process did not directly discriminate against blacks, they certainly were harmed indirectly by the stigma white society placed on them prior to facing life in the marketplace.

Because social institutions and practices are not always found to be fair or just, many feel that special action is needed to correct past or current wrongs. In particular, there is a feeling that it is necessary to extend economic rights, as well as civil and political rights, to all citizens if everyone is to have a real chance, not just a formal one, to develop their talents and abilities. It is on this point that liberal egalitarians make their case against the market liberalism of Hayek.

Liberal Egalitarians

What seems to distinguish liberal egalitarians from traditional liberals, like Hayek, are their views about the type of rights individuals have and the nature of society's obligation to address them. Associated with these general points are disputes over various economic issues such as worker's control, public ownership, government planning, job security, transfer payments, and so on. Both sides agree that traditional liberal rights are to be protected and defended (viz, equality before the law, political equality,
and equal opportunities for all). Yet, liberal egalitarians, as their name suggests, make additional claims or arguments about the type of economic rights which should be recognized in modern democratic states.

David Miller makes a useful distinction between these two camps and their views on human rights. On one hand, he claims

There are the traditional natural rights of Locke and the French revolutionaries: life, liberty, and property, for example. On the other, there are social and economic rights which have only been claimed in recent times, such as the right to work and the right to subsistence. The main difference between the two classes is that rights in the first category are rights to be allowed to do things, corresponding to duties in other people not to interfere, while rights in the second category are rights to be given things, corresponding to duties in other people to provide them. (109:78-79)

In this sense, the right to property means I have "the freedom to acquire property" along with "the claim that other people should not interfere with what had been acquired." (109:79) Whereas, the right to have a job means not just "the freedom to seek work but the right to have work provided." (109:79)

Obviously the first class are those rights associated with a liberal market system stressing property rights, individual freedom, and individual responsibility. The second class of rights represents an expanded listing of social and economic rights which are commonly afforded, or at least discussed seriously, in many post-industrial
societies. Since they deal with "things given" and with a concomitant duty to "provide them," the issue turns on society's acceptance of the responsibility to provide them.

Liberal egalitarians argue that these rights should be extended for two reasons. First, "people as equal moral beings are entitled to a share of the social wealth at least as large as is necessary to provide for their basic welfare." (51:168) They contend that since all men have "an equal right to well-being and happiness," modern societies with abundant resources should provide the economic and educational resources necessary to assist all men in reaching this goal. (20:61) In other words, society should help all of its members, as much as possible, to aid in the development of individual dignity, a sense of self-worth, and the fullest expression of their talents. If we feel that each person is as important as any other, and to be human means to have a plan of life full of meaning, choice, a sense of accomplishment; then it behooves society to assist them materially if need be. If in a wealthy society some of its members suffer by lacking the most basic needs, this society, liberal egalitarians feel, is unjust because some individuals are being denied the right to develop their human potentialities. That is, they are unable to become a full human because basic physical or animal needs are pressing ominously against them.
Second, they argue that the traditional rights extended equally to all members of a liberal democracy are, in practice, largely abstract, formal, and unequally distributed and used when and where great economic inequalities prevail. That is, unless basic economic needs are provided, the economic inequalities which can and do develop in a market system, will undermine the opportunity of many to avail themselves of the classical liberal values of equal opportunity, political equality, and the individual freedoms of speech, assembly, and so forth. Liberal egalitarians come to base their support for welfare rights and for economic redistribution on an awareness that democratic rights and principles "cannot work the way its advocates claim (they) ought to without a substantive foundation: an egalitarian distribution of basic civil liberties and of primary goods." (51:198) Their goal is to provide "the material prerequisites for equalizing opportunities," to "cultivate the potential for cooperation among people," and to do so while protecting individuals "from unjustified social intrusions." (51:218; 229)

This school, including such figures as C. B. MacPherson, Amy Gutman, and possibly John Rawls, contends that "negative liberty" or "freedom from" external controls is not sufficient to guarantee the goals of a liberal state. MacPherson argues that there exists within liberal democracy various competing views or models about man and society. In
the Benthamite world, life is simply one big marketplace
where individuals are free to maximize their pleasures or
utilities in a competitive environment. (104:24) In such a
world, the function of the state is to protect property,
uphold law and order, and to protect against external
enemies. Equality was limited to political rights and to
those with the talents to exploit opportunities in the
marketplace. J. S. Mill, reacting against Bentham's and his
father's view of society and man, developed another view,
according to MacPherson, claiming that "man is essentially
not a consumer and appropriator but an exerter and developer
and enjoyer of his capacities." (104:48) That is, J. S.
Mill believed that man was more than a maximizer of utili-
ties. Instead, he held that the purpose of democracy was to
facilitate the improvement of mankind by the energetic devel-
oment of human abilities "in intellect, in virtue, and in
practical activity and efficiency." (104:51) Mill realized,
however, that the inequalities generated by capitalism stood
as an obstacle to the moral development of mankind. Mac-
Pherson argues that the younger Mill "saw the existing class
inequality, and saw that it was incompatible with his devel-
opmental democracy, but thought it accidental and
remediable." (104:49) Therefore, to develop man to his
highest levels would require a more egalitarian system, and
not just in terms of political equality but also in terms of
wealth.
This is a rather rough sketch of MacPherson's ideas about liberal democracy but it serves as a useful way to judge Hayek's views about social justice. Clearly, he is in the Locke, Bentham, and James Mill tradition of supporting what MacPherson calls "protective democracy". (104:23-43) In such a system, emphasis is placed on the individual rights as described by Miller. The state's main function is to protect these rights and to provide ancillary support system for the market economy. However, such a set-up is bound to generate economic inequality which, undoubtedly, will create inequities in other areas where equality should exist. For instance, the "one-man, one-vote" rule in the political arena does not mean that political equality is operative in that arena. Political power, as we all know, can be had in many other ways. Since money is the lubricant of the political process in most democracies, we can assume that political power is distributed in some parallel fashion with the distribution of economic power.

J. S. Mill, while never completely able to divorce himself from the utilitarianism of Bentham and his father did, however, sense that in a democratic polity mankind could actualize a more noble calling and existence. That is, the goal of developing dignity, self-respect, and brotherhood in mankind, is far superior to maintaining a society of calculating pleasure machines. Today's liberal egalitarians find some of their own ideas in the work of the
younger Mill in his flirtation with the ideas of socialism, much to the chagrin of Hayek I might add. (NS:129-130) But this is again because Hayek's conception of man, state, and society parallel those of Locke and Bentham. What they share is a view of man which is atomistic, appetitive, and competitive. And, of course, a view of society which denies any sense of social cooperation or responsibility on the part of its members to improve the human condition. The state is to be feared, and limited to night-watchman duties. It is not to be active in ways to deal with major social issues like poverty or human development. Again, from this perspective, economic inequalities are merely a natural outcome of a neutral process and are not seen as a threat to the moral or social development of those who fail in the process. Nor are economic inequalities seen as inhibiting factors to the legal and political equalities advocated by liberal principles.

Liberal egalitarians, correctly I think, question these assumptions knowing full well that material factors have a great impact on the type and quality of life people can lead. If one is concerned about individuals as equal moral beings, then one has to accept, or at least address, the idea that advanced societies should commit themselves to guaranteeing the prerequisites for the development of our uniquely human powers. This means that society should make sure that no one, if possible, suffers for the lack of
certain basic or primary goods. An adequate level of food, shelter, clothing, health care, and education, needs to be extended, without social stigma or resentment, to those who need them.

The real issue is whether individuals living in affluent societies have a right to economic benefits not ordinarily provided for by the market. Or put another way, is the market system open to charges of being unfair, or at least unable to meet the full needs of those living within it? But beyond some rather limited welfare provisions for the most destitute, Hayek, for the reasons mentioned above, thinks not. But let me provide another reason, slightly different from those above, to support a different answer.

Hayek's version of the liberal state provides many more economic benefits than he is willing to admit, particularly in the form of "public goods." We usually understand this term to mean those goods or services which theoretically benefit everyone equally; and whose costs are equally shared by all citizens. Such services or goods typically include national defense, a legal system, roadways, and some public utilities. But many of these public goods work to the express advantage of the wealthy and large corporations. Studies on this issue have concluded that money spent on public goods are decidedly pro-rich. But we seldom talk about cutting back on defense spending or police protection
(i.e. the protection of foreign investments made by corporations or the protection of private property at home) because the rich take, as they do, an unequal advantage of these services. No, we are left to think that everyone benefits equally from spending 25% of the federal budget on defense needs. The argument is that we "need" a strong national defense, but that the need is certainly not an equal one because some benefit more than others by spending tax revenues on weapons instead of, say, better health care. Even the programs considered to be pro-poor, such as the federal food stamp program, confers economic benefits to farmers, merchants, and food processor and distributors, which are often overlooked. The point is that the liberal state has historically used its various powers to grant economic benefits to selected groups in society, but all in the name of equal treatment and benefits.

The issue becomes one of identifying what rights are to be judged legitimate and important for the social group. This can be easy in some cases, yet very sticky in others. For example, we can agree that all men have a right to life and that they should not be used as means to the ends of others. In the same way, people do not have the right to own slaves or to sell themselves into slavery. But, does every American have a right to a job or a decent and stable income? The answer here is not clear or absolute, (if, in fact, any right can be considered to be an absolute one)
because it is still a matter of public debate yet to be settled one way or the other. But if huge amounts of tax dollars can be spent on various "public goods" which are pro-rich and, in effect, redistributes from the bottom upwards via regressive taxes; then there are no valid reasons to deny primary social needs, like jobs, to those who need them. A nation's security and strength can be improved just as well, and maybe better, by spending tax dollars for the basic domestic needs of its citizens.

Hayek appears to be deaf to this type of thinking because he fears the power that a redistributive welfare state might possess. But one could argue that the "limited" liberal state already uses vast redistributive powers to facilitate, albeit indirectly, the material inequalities of the market process. The well-to-do fight the redistributive measures of egalitarianism not because they fear state power per se, but because they fear losing their control of the process to those who may wish to use it to shift resources in another, more equal, direction.

But so long as individualism and competition are valued, and a cooperative view of society rejected, it will be difficult to convince people that society should concern itself with economic rights or greater economic equality. Only when a sizable portion of the general public becomes convinced that justice requires that we should extend economic rights as a matter of course will it become an issue
in liberal societies. Today many people fight against recognizing economic rights, or any attempt to bring about greater economic equality. We may find that in a hundred years their arguments against equality will appear just as foolish or misconceived as those who opposed giving women political equality with men. This is not to say that it is inevitable that we will come to accept an economic bill of rights, but only to suggest that the notion of "rights" is flexible and that yesterday's list of rights, say Hayek's list, is not absolute. Hopefully, we can maintain the value and practice of the traditional ones, like those listed in the American Bill of Rights; while at the same time adding rights which add to human freedom and to the enhancement of life in general.

Hayek has attacked the notion of social justice primarily to protect liberal-capitalism. Social justice is a mirage to him because he wishes to avoid any charges that something is wrong with how people are treated in such a system. He knows that if the market order is found wanting from a moral point of view, it may lend support to various efforts to change it. But since he is ideologically motivated against changing the liberal order, he not only criticizes competing ways of organizing human life (government planning, public ownership, the redistributive state), but also takes the stand of denying that anything of substance is wrong with the liberal-market order. This is a
poor defense because serious injustices can be found in liberal societies. We can now turn to the issue of analyzing Hayek's defense of the liberal order. Has he demonstrated in some way the superiority of liberalism, or is his defense simply a last-ditch effort to deflect serious attacks against a set of ideas which have run their course? We turn to these questions in our final chapter.
NOTES


2) For a discussion of libertarian principles see Nozick, Anarchy, State and Utopia, ch. 7; and Sterba, Justice: Alternative Political Perspectives pp. 10-11; 172-186.

3) Nozick's discussion of pattern principles of justice in Anarchy, State and Utopia can be directly traced to a statement made by Hayek in The Constitution of Liberty where he objects to "all attempts to impress upon society a deliberately chosen pattern of distribution, whether it be an order of equality or of inequality". (CL:87)


9) See Page, _op. cit_ , Chapter 4.
CONCLUSIONS

"Grace is given of God, but knowledge is bought in the market" - A. H. Clough

We began this study by suggesting that epistemology had some significance for political theory. Or, perhaps in the case of Hayek, that one's political views may commit one to a particular understanding about the nature of human knowledge. I think it is safe to say that Hayek's political and economic views were established prior to his working out a position in epistemology. What he has attempted over the years is to develop an idea about the nature of human knowledge which would, at least in his eyes, support liberalism against competing theories of social, political, and economic arrangements, in particular, socialism. Throughout this work I have tried to demonstrate how his positions in various dimensions of thought are tied to his views about knowledge. He defends his views on methodology, economics, and politics by showing how they acknowledge, accept, and complement a world where man's social knowledge is limited, fragmented, and dispersed. As such, he defends methodological individualism, the free market, and the classical liberal view on man, state, and society.
Hayek thinks that these arrangements allow men to cope with their general, overall ignorance about the complex social world around them. In a market order, for example, an individual only needs to concern himself with a few pieces of information at a time, nicely abbreviated and conveyed to him in the form of market prices. The vagaries of social life are also simplified and given a fair degree of certainty when general, abstract rules, known in advance, structure the affairs of men. According to Hayek, these general rules, along with the free market, aid us in utilizing dispersed human knowledge. The result, we are told, is that these undesigned human arrangements produce levels of material and moral achievements superior to any rationally conceived plan to do the same thing. Consequently, Hayek feels that we need to be constantly on guard against pretentious views about the powers of human reason and our ability to control events around us.

But we need to ask how Hayek's advice about the "Pretense of Knowledge" should be taken. Is it simply a bit of common sense and prudent advice through which we all can benefit? Or, is it supposed to stop would-be reformers from acting too boldly by pointing out the dangers involved in tinkering with complex social phenomena? Or, finally, could it be that his insight is a fundamental truth and, thereby, represents a valuable discovery for modern economic and political thought? Hayek, obviously, would agree with all
three interpretations, especially the third one. I am inclined, however, to accept the first point and a revised portion of the second point. Namely, that his argument is meant to halt reforms, not necessarily for the totalitarian implications implied by Hayek, but rather as a rear guard defense of traditional liberalism. Undoubtedly, he feels that the two are inextricably linked, that is, to lose liberalism is to court totalitarianism. In essence Hayek is waging an ideological defense for liberal-capitalism by holding the totalitarian threat before us. Yet, he is trying to avoid the partisan charge by forming his defense in the third interpretation above. In this concluding chapter I will raise the following issues: First, how consistent across the four dimensions is Hayek's thought? Second, in what way does his thought represent a new defense of liberalism? And third, in the final analysis, does his notion of liberalism deserve to be defended? In other words, is there anything in classical liberalism worth preserving today?

Hayek's Consistency

According to Ellen Wood, systems of thought usually have an underlying common denominator connecting epistemological theories with political, social, and even moral theories. She presents a thesis that liberalism is connected somehow with a Lockean theory of knowledge and that socialism has a Kantian epistemological foundation. If we accept Woods' analysis, Hayek should be considered confused
or inconsistent in his thought because he rejects Locke's empiricism for a Kantian theory of knowledge, while at the same time accepting a Lockean view of politics, man, and society. On the other hand, Wood's distinction may be too rigidly drawn, especially since Kant was a political liberal.

It may make more sense to say that Hayek has a theory about knowledge rather than a theory of knowledge proper. His view of knowledge is less philosophical than it is practical in that it comes from his work in the realm of economics. In his attempt to study how a complex economic order operates, he has been deeply influenced by what he sees as the unstable nature of economic knowledge and our overall ignorance of economic forces. Hence, when confronted with Unger's question: "What can we know?", Hayek's answer is that we have limited knowledge about complex human matters. Hayek then takes this answer and weaves it into the various stands or positions he has developed in the various dimensions of his thought.

Central to Hayek's analysis is the connection and complementary nature which he finds in individual freedom, the market order, and the character of social knowledge. If man's limited and fragmented bits of knowledge are to be utilized, not fully but to the highest level possible, then individuals must be given a great deal of freedom to act on their knowledge. Equally important is the notion that men
must have an incentive to seek out reliable information. This is accomplished only if individuals have a direct stake in discovering and acting upon the signals of the marketplace. Hayek feels that without the possibility of a personal gain or loss, a major part of the driving force to find and use information is missing. (24:55) This is why individuals must be held responsible for their actions and why private property remains as a key element in Hayek's system. If individuals are not held accountable, and if one's own personal fortunes are not involved, Hayek believes that economic mismanagement and inefficiencies will result. Therefore, a wholesale move to a comprehensive welfare state or to a socialized economy, creates a condition which works against the discovery and use of important economic information.

Taking all of this one step further, in order to have a well-functioning market it is necessary to support it with a particular type of political order. This political order must maintain the operation of the free market by outlawing practices which would jeopardize its open and free character. This, Hayek tells us, can be accomplished only by firmly establishing the Rules of Just Conduct. Under such a system, everyone is treated equally and everyone knows beforehand the general rules which guide the actions of
others. In addition, he knows with a great deal of cer-
tainty how he and his cohorts will be treated if they vio-
late the law. Finally, he knows that the state and its
officials are not above the law and that the arbitrary use
of state power will not be tolerated. All told, these
assurances are important pieces of background knowledge
which allows individuals an element of certainty as they
move about in the market order.

From the complexities of epistemology to the dilemmas
of state power, Hayek has consistently pursued a system of
individualism predicated on the nature of social knowledge.
Yet, consistency is not the same thing as truth.

**Hayek as an Ideologue**

Having accepted Hayek's thought as logically consistent
across dimensions, we now turn to a different question. Is
it possible to assess the validity or the truthfulness of
his ideas? Has he captured some fundamental truth about the
nature of man and his social organization, or, should we
describe him as an ideologist for a privileged minority or
economic class?

Karl Mannheim's definition of an ideology contains the
four following features or characteristics. An ideology is

1) a set of ideas or beliefs

2) that have an "unconscious" basis

3) that are distorted by the interests of a particular
   group
4) that serve the interest of that group in maintaining the status quo.

Mannheim's message is that every human community necessarily erects an ideological barrier around itself as a means of self-defense. Ideational systems are constructed, often unconsciously, to protect the sanctity of the existing system. Typically, the ideology gives a veneer of normality, morality, and superiority to the ruling regime. If the ideology comes to dominate the outlook of those living in a particular society, it can distort reality, justify all anomalies, and even convince those who suffer under the system that they, and not systemic factors, are to blame for their sufferings.

Consider the following comment made by Hayek's close associate Ludwig von Mises:

Therefore, when one reaches the conclusion, strictly by adherence to the canons of scientific procedure, that private ownership of the means of production is the only practicable form of social organization, this is neither an apology for capitalism nor an improper attempt to lend the authority of science to the support of liberalism. To the man who adopts the scientific method in reflecting upon the problem of human action, liberalism must appear as the only policy that can lead to lasting well-being for himself, his friends, and his loved ones, and, indeed, for all others as well. Only one who does not want to achieve such ends as life, health, and prosperity for himself, his friends, and those he loves, only one who prefers sickness, misery, and suffering may reject the reasoning of liberalism on the ground that it is not neutral with regard to value judgments. ... The defenders of the prevailing etatist and interventionist systems completely misunderstand this. They think
that the acceptance of liberalism, on the assumptions mentioned, presupposes a definite world view. Liberalism has nothing to do with world views, metaphysics, or value judgments. (158:39)

For those who accept Mannheim's notion of ideology, no better example than the above could be offered. Mises asserts that he defends liberal-capitalism scientifically and morally. Reflection, he tells us, will show that we can scientifically deduce the canons of human action and social organization which will maximize "life, health, and prosperity" for all. To reject liberalism is simply to opt for "sickness, misery, and suffering". In addition, he maintains that the defense of liberalism has nothing to do with protecting the interests of a particular class or with false consciousness. Liberalism simply takes account of the true nature of man and the most beneficial means of organizing his social existence. Those who come to doubt these "truths", "completely misunderstand" the mechanics of liberal principles and how they mesh with the realities of social life. In fact, those who attack capitalism, and support socialism, are the ones engaged in partisan ideology. While Hayek is not as dogmatic in his defense of liberalism, he too can swing from the heels against socialism. For example, he claims that:

time is overdue to proclaim loudly that intellectually the foundations of socialism are as hollow as can be, and that opposition to socialism is based, not on different values or on prejudice, but on unrefuted logical argument. (NS:305)
He goes on to state that:

instead of reasoning logically to meet the substantial objections they have to answer, socialists impugn the motives and throw suspicion on the good faith of defenders of what they choose to call "capitalism". Such crude efforts turn discussion from whether a belief is true to why it is being held seems to me itself an outgrowth of the weakness of the intellectual position of the socialists. (NS:305)

Since socialists and other statists are unable to refute the logical arguments which support liberalism, they turn instead to attacking the motives and the personalities of the defenders of capitalism. In contrast, Hayek feels that he and his cohorts have addressed the evidence pertinent to the debate with socialism. He feels that he has demonstrated that socialism simply cannot achieve all that it promises. Socialism, he feels, will destroy the basis of all morals, personal freedom, and responsibility ... politically it leads sooner or later to totalitarian governments ... (and on the) material side it will greatly impede the production of wealth, if it does not actually cause impoverishment. (NS:304)

What are we to make of these statements by Hayek?

Christian Bay, for one, argues that Hayek's philosophy definitely functions to perpetuate a privileged system for the rich. He argues that Hayek's narrow use of the concept "freedom" translates in practice to "freedom for the affluent". (9:114) Bay goes on the claim that the liberty
Hayek so ardently defends is arbitrarily limited to liberties important mainly to those who are doing well within the system; the classes of people who dread interference with their plans and ambitions (by the state) ... (and that this view of liberty precludes) the classes of people who desperately could use a little "arbitrary interference" to keep their children alive and well. (9:112)

Hayek would certainly concede that some individuals do far better than others in a liberal-capitalistic society, at least materially. But economic inequality is justified on two counts. First, Hayek believes that "social inequality is essential to liberty, and that liberty ... is necessary for the eventual abolition of poverty". (9:113) And second, the inequalities which develop within a liberal system are the consequences of individual actions which are undesigned, most commonly caused by good luck, accident, or just natural tendencies which inevitably creates such disparities. Ultimately, Hayek feels that liberal-capitalism is justified in spite of its economic inequalities because overall it enhances the general good.

If one accepts this logic, we are committed to a program of waiting for the poor to make things happen for themselves. The poor are to be dealt with by assuring them that their future looks bright only if the market system remains in place and if they assert themselves. Instead of agitating for change, Hayek prefers that we opt for the status quo ante and inactivity because reforming efforts
will make things worse. But, like many of Hayek's arguments, these claims cannot be verified. Since we never reach the "long-run", what we have are hollow promises of future benefits forever postponed. Hayek is guilty of turning a prudent piece of advice into a prophetic exercise that can never be refuted because we never reach the end of the long-run. What we have are hollow promises of eventual benefits which never have to be delivered, as well as a way of reducing our sense of guilt.

But beyond this, Hayek is blind to many contradictions which exist in his thought and certain "double standards" which betray the protection of class interests. Let me give three examples where Hayek is guilty of just this thing.

A central tenet of capitalism is the notion of free entry into and out of the market. Monopolies, therefore, violate this principle by obstructing free exchanges. Yet Hayek treats monopolistic practices with a double standard. On one hand, labor unions which are in many ways monopolies, are roundly vilified by Hayek because unions represent a privileged class of workers who use their power to promote their interests vis-a-vis management. Their chief defects are that they disrupt the labor market by circumventing the laws of supply and demand, and that they "exploit other workers by altogether depriving them of the opportunity of good employment." (LLL3:144) And, of course, unions accomplish these things with the willing support of the state.
Business monopolies, in contrast, are treated much more benignly by Hayek. He praises "large aggregations of material resources" because they make it "possible to achieve better results in terms of cheaper or improved products or more desirable services ... this kind of power must be regarded as in itself beneficial." (LLL3:80) He claims that if corporate power remains largely over "material things", and not "over the conduct of other men," their size or concentration of power is not a problem. He even claims that "these two kinds of power are not necessarily connected and can to a large extent be separated." (LLL3:80) This is probably one of the most outrageous ideas that he has ever had. To think that economic power, and great concentrations of economic power especially, have no connection with controlling men is utterly absurd. Corporations make decisions daily that in one way or another effect how people work, live, and think. But his only objection to business monopolies is if they act overtly to prevent others from engaging in competition. (LLL3:83) Yet, overall, he worries more about governmental intervention to break-up monopolies than he does with the power large corporations may have in controlling the economic lives of millions. (LLL3:85-88) He sums up his views about monopolistic practices with this comparison:
much enterprise monopoly is the result of better performance, while all labour monopoly is due to the coercive suppression of competition. (LLL3:83)

This is blatantly a pro-business, anti-labor attitude.

A second area where he shows a definite class bias is in his notion of freedom. As we have noted, freedom for Hayek is simply the absence of coercion. But he so limits his understanding of coercion that everyone who is not in a state of slavery is technically free.² It seems that unless I am physically controlled by another person, I have complete freedom over my life. But freedom can have another meaning, i.e., the freedom to choose a course of action from a range of real opportunities in life. Is it correct to say that a person is free when he is faced with working a low paying, distasteful job or starving? A large number of people have limited or no actual choices in their lives, and we must be reluctant to say that they are free agents able to do the kinds of things they wish to do. But, of course, life is not a game of wishing. No one is absolutely free and, therefore, it would be better to speak about the degrees of freedom which men can experience. Generally speaking, freedom and the possibility of having free choices in life is largely a function of one's freedom from material want. We are all free to spend a night in a flop house; but very few are free to spend a night at the Ritz because it is not free, but quite expensive lodging. In today's world, a steady and a decent income is a precondition (or at least
one precondition) of reaching a level in life of having real choices. When deprived of economic sustenance, people are reduced to a situation where they can easily become mere means to the plans of those possessing economic power. While Hayek touts the freedom people have liberal orders, I have to agree with Bay's point that, in practice, it is freedom for the rich and make-do for the poor. Hayek accepts such a distorted view of freedom because an expanded concept of freedom would require redistributive measures. The poor are free to lose because Hayek is against using the state's redistributive power to help underwrite the basic needs of the less fortunate.

One final example reveals the double standard. Hayek is opposed to all privileges granted and protected by the state, giving some individuals special treatment "not available on equal terms to others." (SPPE:222) He rants and raves about special interest groups who have politically blackmailed the state into granting them "special advantages" counter to the general good. (LLL3:99-101) He claims that:

The real exploiters in our present society are not egoistic capitalists or entrepreneurs, and in fact not separate individuals, but organizations. ... The built-in bias of our existing institutions in favor of organized interests ... gives these organizations an artificial preponderance over the market forces and ... is the main cause of real injustice in our society and of distortion of its economic structure. (LLL3:96)
Notice that unlike his analysis in Chapter Six, where he claims that only individuals can be judged just or unjust, we find now that organizations and organized interests are the "main cause of real injustice." Groups now surface as important social actors when it suits his ideological need to find the "right" villain. In the same light, individuals (capitalists) are not the exploiters they are thought to be simply because Hayek wishes to absolve them of any culpability.

What he fails to analyze are the built-in biases and advantages created and maintained by the liberal system through the distribution of property, wealth, and income. Since the liberal state exists primarily to protect property and individual wealth, it necessarily caters to the needs of the rich. And since the state is barred from tampering with incomes and property, for example by way of trying to secure a decent life for the most under-privileged, (it) is a fact destined to perpetuate the existing privileges of some and the existing miseries of others. (9:93)

These remarks made by Christian Bay indicate how double standards pervade Hayek's political thought. In one instance he wishes to limit the power of the state to eliminate its granting of special privileges, yet the liberal state has its own protected interest group, the haves. At first glance, they do not appear to be the recipient of special treatment because, as they claim, they are treated no differently than the average citizen. They face
the same laws, the same duties, and claim the same rights. But the nature of this "equality" is only recognized by analyzing what this system protects. Simply stated, it protects the have from the have-nots. Once a society has sorted itself out into gradations of wealth, however accomplished, the laws of the liberal order protect the privileged from "the less privileged strata." (9:93) Perhaps Hegel was right when he said in his *Philosophy of History* that:

> When liberty is mentioned, we must always be careful to observe whether it is not really the assertion of private interests which is thereby designated.

The Liberal Order as conceived by Hayek operates, perhaps not by design but certainly in effect, to protect the interests of the well-to-do. The liberty and the openness Hayek so lavishly praises in his spontaneous orders really serves as an ideological defense of class rule predicated on economic power.

But having said this, we now turn to a slightly different set of issues: What are we to make of Hayek's defense of liberalism and, when all is said and done, is it worth being defended?

**Hayek's Methodological Liberalism**

When examining Hayek's liberal principles of government and economic life there is actually very little which is novel. He, like many classical liberals before him, speaks
of the Rule of Law, limited government, the free market, and the sanctity of individual freedoms. What sets him apart from other luminaries in the liberal tradition is the foundation upon which he places these time-honored principles.

D. J. Manning, in his study of liberal thought, identifies four main foundations linking liberal theoretical arguments with liberal practices. They are Locke's theological premises, Mill's utilitarianism, Spencer's sociology, and Green's idealism. Manning claims that each entertained different "first principles and facts" meant to "underwrite the liberal message". (106:119-120) But in each case, Manning concludes that they failed to "demonstrate that their political conclusions logically follow from either incontestable metaphysical foundations or indisputable factual evidence". (106:119) Instead:

Their opinions are historically relative (in that) Locke, Mill, Spencer, and Green tell us what they happen to think will please God, make men happy, secure progress, and make men moral, at the time of writing. They have found no alternative to stating their own beliefs; beliefs they acquired in the course of their everyday lives. (106:138)

Can the same be said of Hayek's defense of liberalism? Is he merely stating his own beliefs or opinions about political and economic life? Or, has he discovered a fundamental and incontestable fact about the human condition from which liberal principles can be logically derived? That is, if we desire freedom, progress, material well-being, and moral development, then would it be wise to accept and
maintain the principles of a Liberal Order? And, con-
versely, if we accept any other principles does that mean
that we must inexorably face the prospect of slavery, stag-
nation, poverty, and barbarism? Unquestionably, this is the
choice Hayek is presenting to us. We need to ask, there­
fore, whether Hayek has succeeded where Locke, Mill,
Spencer, and Green failed.

Obviously Hayek owes a great deal to the aforementioned
thinkers. But having said this, I will argue that he has
proposed a foundation for liberalism which is radically
different from their respective foundations. Hayek's foun-
dation is based upon his assessment that our social know-
ledge is insuperably limited, and that in a complex society
we must acknowledge and adjust to the fact that we, as
actors and students of society, are largely ignorant. This
is a theme that begins to show up in his early work on
economic theory and, in time, becomes the centerpiece of his
methodology and politics. To make this point I will rely
primarily upon four important essays written by Hayek. The
first two were written early in his career ("Economics and
Knowledge" 1936; and "The Uses of Knowledge in Society"
1945); while the other two essays came relatively late in
his career ("The Pretense of Knowledge" 1974; "Coping with
Ignorance" 1979). As I hope to show, his suspicions about
the limited nature of social knowledge he recognized in
theoretical economic issues, lead him to explore the implications of this condition in other dimensions of human inquiry and organization. Some of this should be quite obvious by now since some variation of this central theme has appeared in each of the four dimensions of Hayek's thought already addressed.

His early concerns with the problem of social knowledge focused around purely economic considerations. In the 1920's and 1930's various trends in the economic discipline either ignored or failed to appreciate the consequences involved in how economic knowledge is divided, acquired, communicated, and utilized. In "Economics and Knowledge" he stated that the central question for social inquiry was to explain how

the combination of fragments of knowledge existing in different minds bring about results which, if they were to be brought about deliberately, would require a knowledge on the part of the directing mind which no single person can possess. (IEO:54)

Various developments in economics, most notably equilibrium analysis and mathematical modeling, failed to recognize this fact, basing their work on erroneous propositions about human knowledge and reason. Too often, the proponents of these approaches assumed a perfect market in "which everybody knows everything". (IEO:45) In truth, relevant knowledge is constantly changing and only imperfectly distributed. The problem with general equilibrium analysis, Hayek notes, was that
instead of basing the analysis of the market on how different individuals with bits of information works towards equilibrium ... we have fallen back on the assumption that everybody knows everything. (IEO:50)

The information or the knowledge of any economic order, Hayek tells us, presents a peculiar problem in that it never exists in a "concentrated or integrated form but (exists) solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess". (IEO:77)

This has one major effect: relevant knowledge is never given or possessed in its totality by any one person. Since the circumstances of time and place cannot be avoided, it is impossible in practice for one individual or planning board to be omniscient. Consequently, the best way to deal with man's imperfect knowledge and the need to adapt rapidly to changes of time and place, is to allow those individuals familiar with the circumstances and the changes in the relevant knowledge the freedom to make economic decisions. In his 1945 essay "The Uses of Knowledge in Society" he makes this connection between man's limited knowledge and the market process which, he feels, makes the most of this condition:

The unavoidable imperfection of man's knowledge and the consequent need for a process by which knowledge is constantly communicated and acquired (supports the need for a free market system). (IEO:91)
But Hayek realized that the fight had moved from being a strictly economic debate to a political issue. Politicians, bureaucrats, journalists, and other miscellaneous makers of public opinion had become antagonistic towards free market ideas. Proposals for economic planning became the rage as socialist ideas gained a growing acceptance. Sensing this, Hayek turned to describing the harmful effects of governmental control on freedom. Simply stated, he had to connect his view about social knowledge to the principles of government. That is, what conclusions for political organization could be derived from accepting the proposition that man has irremedial, imperfect, knowledge? His political philosophy is, therefore, predicated on pointing out what kinds of political practices are at odds with his basic insight, and which tend to complement it.

The problems associated with utilizing social knowledge are also significant in discussing the welfare state and social justice. Hayek tells us in his 1974 Nobel Lecture, "The Pretense of Knowledge", that:

to act on the belief that we possess the knowledge and the power which enables us to shape the processes of society to our liking, knowledge which in fact we do not possess, is likely to do us much harm. In the physical sciences there may be little objection to trying to do the impossible ... but in the social field the erroneous belief that the exercise of some power would have beneficial consequences is likely to lead to a new power to coerce other men being conferred on some authority. (NS:33-34)
The welfare state or the adoption of some concept of social justice is, in Hayek's view, the embodiment of this "new power to coerce other men". Even the benevolent state must at some time restrict individual freedom in its attempt to restructure society. Since "some authority" will take it upon itself to decide how other people should live, and what counts as "social justice", the inevitable consequence, Hayek reports, must be an authoritarian state. Furthermore, whenever the state moves to replace the market mechanism in resource allocation, Hayek feels that their actions will eventually disrupt the flow of economic signals to economic actors. The result is the stagnation of economic growth and increasingly higher rates of inflation and unemployment. Hayek argues that this assessment has been confirmed by the economic crises experienced by many Western democracies in recent years. These problems, he insists, were directly caused by the social welfare and incomes policies these governments have pursued since 1945. Hayek's hope is that policy-makers will wake-up to the fact that we simply "cannot acquire full knowledge which would make mastery of events possible". It is a humbling realization, but one that he thinks "should guard (us) against becoming an accomplice in men's fatal striving to control society". (NS:34)

In summation, Hayek's support of liberal principles and his rejection of socialism, economic planning, and redistribution efforts, is predicated upon his insight into the
nature of social knowledge. In the abstract, the goals of socialism or various welfare policies are very commendable. But given the nature of social knowledge and human reason, their stated objectives cannot be realized in the long-run. In Hayek's view there is an impregnable barrier — our ability to acquire and utilize knowledge — which thwarts our power "to shape the processes of society entirely to our liking". This understanding is a hard one to come to, especially when our sensibilities are disturbed by the misery we find around us.

My thesis is that this represents a fundamentally new defense of classical liberalism, different from those used to defend liberalism in the past. His theory about man's limited knowledge finds an early place in his thought, reaching a loud crescendo in his twilight years. His work represents a thorough application of his theory about knowledge to a wide range of concerns -- including economics, methodology, and politics. In each dimension he attempts to indicate the validity, the relevance, and the significance of his main theme. The practical import of his account of knowledge is to press the argument that the principles of classical liberalism, which have evolved without a conscious human designer, should be the basis of human organization. That is, given what he considers to be a set of universal
human goals (viz., prosperity, freedom, stability, and peace), liberal principles and practices will help mankind realize those goals better than the alternatives.

But if we doubt his conclusions, and lack his enthusiasm for liberal-capitalism, we raise the question of whether his type of liberalism is worth defending. In most cases, his supportive claims are mere assertions or unsubstantiated arguments which, apparently, are not widely accepted, or easily held, by others. What, therefore, is wrong with his type of liberalism making it unpalatable in today's world?

Clearly, many of his arguments about the superiority of liberal principles, institutions, and processes are based on idealized pictures of how the world works. If Hayek casts aspersions against socialism or economic planning because they rest on dubious assumptions, then we could level the same charges against liberal-capitalism. As Bay remarks, Hayek rules out "any evidence that large-scale free enterprise does not exist, or cannot work." (9:110) Any hint that the market order perpetuates an underclass, or exploits some of its members, or needlessly tolerates poverty is dismissed by Hayek. And anytime something goes wrong with the economy, such as a depression, it must be due to state interference and not with some inherent flaw in the market process itself.
In the same way, the praise accorded to the Rules of Just Conduct often ignores clear counter-examples found in the real world. Even in a country like the U.S., where this principle has a strong hold, there are too many examples of where the spirit of the law has been cast aside, ignored, or cruelly perverted in its application. Jim Crow laws for blacks, concentration camps for Japanese-Americans during the 1940's, and the violation of civil liberties of unpopular domestic groups by law enforcement officials, all testify to the frail character of the Rule of Law. If we have imperfect institutions and practices, there must be a measure of unfair and unjust treatment for various individuals and groups. It is a cruel ploy to argue, as Hayek does, that liberal-capitalism as a social system is a blameless order or that the less fortunate can do no better than to accept the market system as their benefactor.

Related to this point is a simple, but justified, observation that Hayek is largely indifferent to human suffering; that his "liberalism" clearly lacks a "human face." One searches in vain in his writings for any mention about meeting the basic needs of the less fortunate, or with the development of human qualities unique to man. In Hayek's world, individuals may choose to help others if they wish, but otherwise society resembles an Hobbesian nightmare. He even goes so far as to state that:
We cannot feel (genuine concern) about the thousands or millions of unfortunates whom we know to exist in the world but whose individual circumstances we do not know. (CL:84)

Since they are out of sight, Hayek pretends that we need not trouble our minds, our souls, or our pocketbooks about their particular predicaments. This is nothing more than an rationalization to absolve ourselves from a sense of guilt that we, or our system, may be a contributor to the plight of others; or that we have a moral obligation to help them. There is no reason to accept this kind of reasoning, and it may be socially immoral to do so. He wants us to believe that our lack of knowledge about human suffering ("circumstances we do not know") frees us from being concerned with a solution. In this light, the phrase "ignorance is bliss" takes on an especially cruel meaning.

Lastly, if Hayek had the power to reconstruct the American or British polities to coincide with his vision of the liberal state, the changes, to say the least, would be dramatic, if not totally unacceptable to most citizens living in these two societies. Granted, the type of welfare systems which have developed in these two modern democracies are not perfect or complete blessings. Yet most citizens have come to accept old-age pensions, unemployment compensation, and various degrees of free or low cost medical care, as socially useful and progressive measures. Welfare legislation has eased the suffering of many and have given the
elderly a measure of dignity in their old age. In addition, the quality of life has improved substantially in areas where the state has stepped in to regulate safety at the workplace, to clean up the environment, to aid the jobless, and to help the sick and the disabled to carry on. It goes without saying that Hayek would reduce these economic rights and that he would gut the rights of workers and labor unions. The issue is whether people really would wish to return to the days of the unencumbered market system as advocated by Professor Hayek. I think not. Today, most people do not see the state as the devil incarnate. The state can be responsive to people's needs and it can act to protect collective goods, like the environment, from the indifference of unlimited capitalism. But Hayek has never shown much concern with what people want or need outside of what the market can provide them.

Final Remarks

By focusing on the problems of human knowledge Hayek is trying to recapture the spirit of Socrates. The liberalism he defends no longer employs natural right or utilitarian arguments, instead it rests on critical rationalism. That is, it is a position which is dubious about any mode of thought which holds that man can be the master of his fate. Critical rationalism teams up with methodological liberalism in acknowledging our limitations. It proposes that we can best deal with our ignorance by establishing and maintaining
those institutional arrangements which expect men to be ordinary men. But like Plato's Socrates, Hayek can be charged with feigning ignorance about human affairs when, in fact, he is eager to play the role of the philosopher-king. With his constant din about our lack of knowledge and our limited reason it could be he hopes that we accept his premise to clear the field of competitors. Behind his rather modest claims about having to "cope with ignorance," he is very confident in his knowledge about how the world works and in what institutions, practices, and processes should be set-up and maintained, and, of course, those that have to go. What we find, therefore, is an instance of epistemology as ideology.

There has been a renewed interest in Hayek in recent years. In part this may be due to his new rationale and defense of classical liberalism. Politicians and social thinkers (most notably Jack Kemp and Thomas Sowell) are bringing his ideas back into the public forum in response to what they see as the failure of statism in its various political and economic machinations. All along, Hayek has favored the experimental and evolutionary development of human institutions and practices over those designed by the presumptuous human agent. Yet, what he supports in practice is not further experiments in social life since they threaten to move beyond his conception of liberalism.
Instead, what he opts for is devolution; that is, the restoration of old practices which have fallen, not to totalitarian monsters, but to the needs of post-industrial societies.

In any event, Hayek will go down in the history of ideas as the 20th century's most determined defender of 19th century liberalism. But, as we consider Hayek's battle to restore a 19th century notion of social life and existence, we have to ask if his energies are being wasted as the 21st century beckons us with new problems and challenges.
NOTES


BIBLIOGRAPHY


59. ______. John Stuart Mill and Harriet Taylor: Their Correspondence and Subsequent Marriage. Chicago: University of Chicago Press.


