

the Freeman

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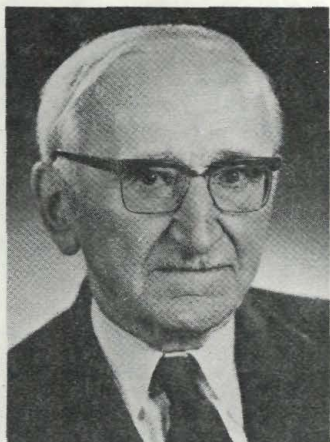
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F. A. Hayek: Classical Liberal

If George Will has deemed us "Inmates of the Twentieth Century," and Eric Hoffer has decried our time as "hectic, soaked with the blood of innocents, irrational and absurd," then it is most fortuitous that we have the writings of F. A. Hayek as a refreshing oasis of sanity. Now in his 80th season, this 3-letter scholar (Ph.D's in law, political science and economics) has risen to his most commanding position of influence, topped by his receipt of the Nobel Prize in Economics (awarded jointly with Gunnar Myrdal) in 1974. Symbolically, it is cause for great hope

that when the *London Times* carried Professor Hayek's picture in its May 18, 1978 issue, they chose to caption it: "F. A. Hayek: the greatest economic philosopher of the age."

It wasn't always so. Least of all in the eyes of the *London Times*. As Patrick Cosgrave wrote in the article adjacent to the photo:

He [Hayek] has lived long enough to see the twin assumptions he has spent his career attacking begin seriously to fail in their power of convincing. The first assumption was that greater and greater intervention by the state in, and greater and greater control by the state over, the economic process, was a necessary concomitant of progress, efficiency and equality. The second was—central planning having failed to be efficient—that greater and greater regulation by the state of income and rewards was compatible with individual freedom.

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This article appears here by permission from his introduction to an interview with Professor Hayek, being published as a pamphlet by the IIER.

His Star Ascends

It is in the swirling winds of a turbulent political climate, a climate turning cold to socialism, that Hayek's stock is perking up. And as his star ascends, much credit is extended to his iconoclastic observations from less friendly times. "The engine of Hayek's return to favor," comments Cosgrave, "was inflation, which he had always predicted would be the inevitable consequence of the infiltration of Socialist ideas about social engineering into modern democratic government. It remains to be seen whether his second prediction—that the failures of Socialism and socialistically inclined governments lead inevitably to tyranny—will be allowed to come true."

Yet it is coming true—before our eyes, not to mention our wallets. Bureaucrats in centralized government offices are today charged with the authority to dictate who may be promoted in their jobs according to certified racial quotas, where children may attend school, what political discussions are engaged in by (private) radio and television stations, what prices companies may charge and what wages laborers may receive, which artists and social scientists may receive tax subsidies, what parts of the country may receive energy supplies made short by federal price controls, what safety equipment consumers must

add to the cost of their automobile, what medicines a heart patient may use in an attempt to save his life, what artificial sweeteners a weight-watcher may add to his diet cola, ad infinitum. What could be more redundant today than a complaint against arbitrary, unreachable bureaucrats? Citizens increasingly cry out against "unresponsive administrators"—always in a tone of helplessness. But, demagogues excluded, who might tell us why it is that "you can't fight city hall"?

In his 1944 best-seller, *The Road to Serfdom*,¹ Hayek forewarns precisely why:

When the government has to decide how many pigs are to be raised or how many busses are to be run, which coal mines are to operate, or at what prices shoes are to be sold, these decisions cannot be deduced from formal principles or settled for long periods in advance. They depend inevitably on the circumstances of the moment, and, in making such decisions, it will always be necessary to balance one against the other the interests of various persons and groups. In the end somebody's views will have to decide whose interests are more important; and these views must become part of the law of the land, a new distinction of rank which the coercive apparatus of government imposes upon the people. (p. 74)

Hayek has inhabited the ivory tower for better than 60 years, yet,

¹University of Chicago Press, 5801 Ellis Ave., Chicago, Ill. 60637.

since he gave up on socialism in his early twenties, has never been taken by collectivism's press releases. In quoting Tocqueville in *The Road to Serfdom*, Hayek shares with us the classic analysis of government control:

"Democracy extends the sphere of individual freedom," he said in 1848, "socialism restricts it. Democracy attaches all possible value to each man; socialism makes each man a mere agent, a mere number. Democracy and socialism have nothing in common but one word: equality. But notice the difference: while democracy seeks equality in liberty, socialism seeks equality in restraint and servitude." (p. 25)

While Western nations have, for all intents and purposes, left the idea of "hot socialism," as Hayek calls it, they still dance with the seductive political notion of state control in "high priority" social problem areas, thus creating a convoluted political compromise perplexing to socialists and capitalists alike, and leading us into slavery.

Although we have been warned by some of the greatest political thinkers of the nineteenth century, by De Tocqueville and Lord Acton, that socialism means slavery, we have steadily moved in the direction of socialism. And now that we have seen a new form of slavery arise before our eyes, we have so completely forgotten the warning that it scarcely occurs to us that the two things may be connected. (p. 13)

And for the "used-to-be-liberals" who have come to realize that good intentions are not sufficient to secure good results, Hayek's most important service may be as an advance warning system alerting us to what may happen when the heart is in the right place but pumping a bit too fast. "Only if we understand," Hayek explains, "why and how certain kinds of economic controls tend to paralyze the driving forces of a free society, and which kinds of measures are particularly dangerous in this respect, can we hope that social experimentation will not lead us into situations none of us want." (Foreword)

What we should want, in Hayek's estimation, is a renewed determination to set free the unpredictable creative juices of individuals. This requires not anarchy, but rather an extension of the Liberal Order, that tradition of government well-defined and clearly limited by the Rule of Law. To Hayek, the chief victory of Western Man has been the removal of much of government's coercive power from the realm of arbitrary whimsical "public servants," and the subsequent ensuring of a healthy, *secure* area of social activity in which all may take whatever actions they will so long as they are willing to shoulder the associated costs. In our ascension from a society of status to one of contract, Hayek observes the essential

ingredient of the "rule of law" as opposed to "the rule of man":

The true contrast to a reign of status is the reign of general and equal laws, of the rules which are the same for all, or, we might say, the rules of *leges* in the original meaning of the Latin word for laws—*leges*, that is, as opposed to *privileges*.

Hence, the legacy of classical liberalism survives with Hayek.

Hayek and Keynes

"When the definitive history of economic analysis during the nineteen thirties comes to be written, a leading character in the drama (it was quite a drama) will be Professor Hayek. . . . It is hardly remembered that there was a time when the new theories of Hayek were the principal rival of the new theories of Keynes. Which was right, Keynes or Hayek?"

—Sir John Hicks, 1971 Nobel Laureate, "The Hayek Story" in *Critical Essays in Monetary Theory*, Oxford, 1967, p. 203

The 1930s were troublesome, momentous times. For economic thought, they were also a watershed. It was then that the negative connotation which had always shrouded the term "government spending" dissolved, to be replaced by an aroma of high-minded civic virtue. While in 1932 Franklin Roosevelt could swing key precincts by blaming the Depression on Presi-

dent Hoover's profligate federal spending policies, all the successful political job-seekers of a very few years hence were boastfully promising deficit budgets, government employment and "stimulatory" policies. This was the Keynesian Revolution.

The academic alibi for the Keynesian Revolution was Lord John Maynard Keynes. In his 1936 treatise, *The General Theory of Interest, Employment and Money*, he offered theoretical explanations for the idea that depressions were spawned by insufficient consumer demand, and vice versa. That is to say, unemployment is caused by a fall in "aggregate demand" and "aggregate demand" falls as unemployment increases. All of which leads to a vicious circle of poverty and joblessness.

It was easy for the masses to believe in vicious circles in 1936. Of course, it had always been easy for the governing class to believe in vicious circles (or anything else) that called for them to administer heavy doses of public sector remedies. Such, as coincidence would have it, was just the Keynesian bromide. The lasting impact of *The General Theory* may be viewed as a prescription from the desk of Dr. Keynes, written permission from the economic establishment to support the addiction which the political community had been so long try-

ing to acquire. *The General Theory* turned a bad habit into "medicine."

The treatment? When consumers "demanded" too little, the government should demand more. Translated into political jive: tax, tax, tax, spend, spend, spend, elect, elect, elect.

"The New Economics"

The governing class received Keynes' doctrine with an enthusiasm reserved for great wars and holy crusades. So completely was the Keynes "solution" to unemployment embraced by the academic and political worlds that their master, Lord Keynes himself, was unable to deter the march. As Professor Axel Leijonhufvud has recently demonstrated, much of what passed for "Keynesianism" was in conflict with the actual economics of Keynes.

Yet Hayek kept his head while all about were gasping over the New Economics. Where magical Keynesian potions guaranteed prosperity by paying a million workers to dig trenches and another million to fill them back in, Hayek never flinched. The world had not been turned on its head by Lord Keynes or the traumatic 1930s, there remained a world of scarcity, there was no free lunch. If Hayek appeared crazy to the point of irrelevance in maintaining these beliefs thirty years ago, he seems quite the prophet to have had such a track

record today. For in our post-New Economics era, where are those martyrs who will still boast of government mega-spending to bring us economic bliss?

As the fashionable designer labels have fallen from the Keynesian emperor, those disillusioned with the panaceas of "fine-tuning," "pump-priming," and "government stabilization policy" have discovered Hayek anew. The simultaneous appearance of inflation and unemployment—which the crude Keynesian model specifically ruled out—has turned virgin utopianism into pregnant reality. Today people are ready to listen when Hayek says, as he wrote in 1975:

The present unemployment is the direct result of the short-sighted "full-employment policies" we have been pursuing during the last 25 years. This is the sad truth we must grasp if we are not to be led into measures that would make matters only worse. The sooner we can tear ourselves out of the fool's paradise in which we have been living the better will be the chance that we can keep the period of suffering short. (*Full Employment at Any Price?*, p. 11)²

Hayek does not, moreover, simply dispense competing panaceas:

I find myself in an unpleasant situation. I had preached for forty years that the time to prevent the coming of a depression was in the boom. During the

²*Transatlantic Arts, Inc., N. Village Green, Levittown, N.Y. 11756.*

boom nobody listened to me. Now people again turn to me and ask how the consequences of a policy of which I had constantly warned can be avoided. I must witness the heads of the governments of all the Western industrial countries promising their people that they will stop the inflation and preserve full employment. But I know that they *cannot* do this. (p. 15).

The Hayek solution, not in favor with advisors to political candidates, is straightforward:

What we must now be clear about is that our aim must be, *not the maximum of employment which can be achieved in the short run, but a "high and stable" (i.e. continuing) level of employment*, as one of the wartime British White Papers phrased it. This however we can achieve only through the re-establishment of a properly functioning market which, by the free play of prices and wages, establishes for each sector the correspondence of supply and demand.

Though it must remain one of the chief tasks of monetary policy to prevent wide fluctuations in the quantity of money or the volume of the income stream, the effect on employment must not be the dominating consideration guiding it. *The primary aim must again become the stability of the value of money.* (p. 27)

Hayek vs. Pseudo-Science

Any discussion of Hayek must include his brilliant attack on the methods of social scientists in general. As a witness to the mushrooming arrogance of fellow economists, sociologists, and

psychologists to direct human behavior and to control personal choices and relationships, Hayek has emerged (along with his close friend and convert Sir Karl Popper) as a superb critic of the academic prejudice known as "scientism."

As an unparalleled student of history, the evolution of political ideas and the emergence of social institutions, a fully-armed Hayek has gone to battle for the free will of individuals in their struggle against the tyranny of today's white-coated totalitarianians. While B. F. Skinner may talk about a world "beyond freedom and dignity," where all is planned to be "rational" and "optimal" by those who *know* what those words really mean, Hayek understands that nothing can be known to be either of these things outside of the context of free human behavior. "Rational" and "optimal" are no less subjective to Hayek than is "happiness"; and all attempts to make the human experience an objective problem of mere technical equation-solving is at once an intellectual error and a moral crime.

The crux is that contemporary social thinkers often tend to see liberty as a nuisance. It foils their calculations and botches their experiments. Hayek is relentless in his appreciation of human liberty as the inimitable innovator which creates the very progress which social scientists seek to duplicate and supplant.

Freedom to Hayek is far from an unmanageable, intractable, troublesome variable, but the pervasive determinant for advancement in each and every compartment of our social life.

Freedom and the Spontaneous Order of Society

So it is that Hayek champions "the spontaneous order." This stands in contradistinction to the human laboratory of B. F. Skinner and his numerous accomplices. The spontaneous order is what motivates the development of the common law, of language, of manners and customs, of liberal constitutional government, of the competitive market economy. In short, it is the unplanned, unplannable genius of men and women just getting along. It is the fabled "invisible hand" of social progress; it is not reproducible in the social alchemist's test tube, no matter the contempt with which he might regard individual enterprise, creativity and adaptability.

As Arthur Shenfield elaborates:

Scientism is the uncritical application of the methods, or of the supposed methods, of the natural sciences to problems for which they are not apt. In the present context it is their application to problems of human society. Thus it is in its very nature unscientific—an idolatry, not an understanding, of science. As Hayek says, "The scientific as distinguished from the scientific view is not an

unprejudiced but a very prejudiced approach which, before it has considered its subject, claims to know what is the most appropriate way of investigating it." And what is claimed to be the most appropriate way turns out to be inappropriate. (*Essays on Hayek*, p. 63)³

Hayek's intimate contact with this part of society that "is the product of human action but not of human design" led him to his greatest insights in theoretical economics. Take the idea of a market, for instance. A market sets a price equating supply and demand for a commodity, and thereby tells the whole system how much that particular good is worth relative to other scarce resources. This allows everyone to make their plans accordingly. They can determine how important it is to economize on this good, or to produce it, or to switch to substitute goods. By looking at the price—determined by the market—the allocation problem of any good, be it gold, hockey games or Gatorade, is solved. Every single person may discover how much he should produce, and how much he should consume. That, unquestionably, is a paramount advance for society.

But the astonishing fact is that no one invented a market. Markets are not made, they just happen.

³*Essays on Hayek* by various authors, edited by Fritz Machlup. Hillsdale College, Hillsdale, Mich. 49242.

They are the spontaneous organic result when individuals who, acting only in their narrow self-interest, cooperate with each other to satisfy their diverse needs and aspirations. Freedom allows trial and error to test whatever plans innovators are willing to chance; self-interest pushes all the rest to imitate the innovations that work. In precisely the same manner does the institution of language spring up from the free flow of individuals just trying to communicate for their own purposes; nobody "builds" a language. The "macro" conclusion of this "micro" process is an innovation enormously beneficial to all social creatures.

Of similar shock value is the realization that this key institution runs on its own energy source. No one *creates* a market, and no one administers it after creation. No central agency takes responsibility for issuing orders to make sure that prices equate supply and demand; no one tells consumers or producers what their buying and spending plans should be. From spare parts to watermelons, the irrepressible forces of supply and demand set prices that automatically create the proper incentives so that the amount demanded will approximate the amount supplied—*without any one person knowing the whole reason* (or anything close to the whole reason) why.

The Socialist Controversy

In thus digging to the roots of our institutions, economic and otherwise, Hayek extracted his most consequential theoretical discovery: "The Use of Knowledge in Society." In his famous 1945 paper by this title, he demonstrated that the basic economic problem in society was to make the best use of all the information available for satisfying our wants. The unique, over-riding feature of this economic information, however, is that "the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess." (*Individualism and Economic Order*, p. 77)⁴

While people are accustomed to thinking of "information" in a technical sense, like how to get oil out of the ground or how to manufacture steel, such scientific knowledge is actually closer to background music for purposes of enhancing our material well-being. If prosperity simply required proper engineering, after all, Soviet Russia (or the U.S. Post Office) would work. Hayek showed that the most essential economic "facts" are tiny bits of information "of time and place."

⁴Gateway Editions, Ltd. Box 207, South Bend, Ind. 46624.

Central administration of economic activity must lose this special, individualized information. Bureaucratic offices have tremendous resources to obtain general information such as statistics, opinion polls, and econometric models as well as technical, scientific data. But bureaucrats are helpless to make the best use of all this precisely because they have no way to capture *specific* bits of information as to what *individuals* may do to contribute. And it is the individual consumer, producer, worker or entrepreneur who must actually make choices and perform the work.

The result is that if central planners make economic decisions from "above" without the contributions of these individuals directly involved, the system has lost an incredible sum of knowledge. The attempt to "control" economic affairs by central planning ends up creating a system wherein *less* knowledge is utilized, precisely the opposite we had "planned." Centralized directioning, in addition to transferring power over decisions from individuals to bureaucrats, creates a loss of efficiency and thereby a wealth reduction for the society as a whole. Hayek details:

Today it is almost heresy to suggest that scientific knowledge is not the sum of all knowledge. But a little reflection will show that there is beyond question a body of very important but unorganized

knowledge of general rules: the knowledge of time and place. It is with respect to this that practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active co-operation. We need to remember only how much we have to learn in any occupation after we have completed our theoretical training, how big a part of our working life we spend learning particular jobs, and how valuable an asset in all walks of life is knowledge of people, or local conditions, and of special circumstances. To know of and put to use a machine not fully employed, or somebody's skill which could be better utilized, or to be aware of a surplus stock which can be drawn upon during an interruption of supplies, is socially quite as useful as the knowledge of better alternative techniques. The shipper who earns his living from using otherwise empty or half-filled trampsteamers, or the estate agent whose whole knowledge is almost exclusively one of temporary opportunities, or the *arbitrageur* who gains from local differences of commodity prices—are all performing eminently useful functions based on special knowledge of circumstances of the fleeting moment not known to others. (*Individualism and Economic Order*, p. 80)

And so we see the ultimate wisdom of human beings acting freely with no direction save self-interest in what might naively appear as useless, wasteful activities. This brings us full circle on the Hayek

globe, for in understanding the value of individual knowledge and enterprise in the economic sphere, Hayek is able to blend the interests of both our material wants and spiritual yearnings. Liberty doesn't trade for prosperity. On the contrary: Freedom works. This became Hayek's enduring contribution, still in effect, to the so-called "Socialist Controversy."

Social Philosophy at Its Best

What remains to be reported, happily, is that there is more to Hayek than brilliant scholarship and an admirable attachment to human freedom. Here is a moving, delightful expositor of the tide of man's affairs; a writer who may burst an explosive social theory without the simultaneous bursting of your patience. Hayek's forte is clarity. His gift is an awesome grasp of logic. So powerfully does he thrust his reader from premise to conclusion that the inevitable destination is accompanied with an irrepressible passion for ideas. It is the way social philosophy should be done.

Arthur Shenfield writes of his reaction to three of Hayek's articles in *Economica* (1942-44) introducing him to the author by way of the dry topic of "Scientism and the Study of Society."

When I read them I became stout Cortez (or Balboa) on his peak in Darien. To

this day I remember the tingling excitement which they evoked in me. Since then, the roll call of Hayek's works on the fundamental problems of society arouses in those who grasp their message a peak of admiration which is now familiar.

This striking sort of impression is witnessed in scores of cases. Lord Keynes was "deeply moved" by Hayek's *Road to Serfdom*. And Patrick Cosgrave couldn't avoid noting that "there is an Arctic ruthlessness about his brilliant logic which seems, most of the time, to refuse houseroom to the . . . warm-hearted schemes for human improvement by government action which have paraded themselves in dazzling succession before our bewildered eyes."

A Scholar in Many Fields of Knowledge

Hayek's tremendous breadth as a scholar is surely a factor in his persuasiveness. He has indeed lived up to his impersonal observation that "he who is only an economist cannot be a good economist." His academic writings grace every topic from law to sociology to philosophy, not to mention economics, history, or politics. One of his great thrills, he claims, was to recently learn that a well regarded college in Pennsylvania was assigning his 1950 *The Sensory Order* in a psychology class. When he taught at the University of Chicago (1950-1962) one of his duties as Professor of Social and

Moral Science was to conduct a weekly seminar of "staggering catholicity," according to Shirley Robin Letwin. The group included two nuclear physicists, one a Nobel Prize winner; "an Irish classicist, completely master of Shakespeare, Gibbon or Tolstoy, as of Sophocles, Plato and Thucydides;" a French Thomist; the two most eminent Chicago School economists, both world-famous; "a classical archeologist . . . the author of *The Gothic Cathedral* and the author of *The Lonely Crowd* as well as the inventor of the 'folk society.'"

As Dr. Letwin describes:

Hayek presided over this remarkable company with a gentle rectitude that made his seminar an exercise in the liberal virtues. Every remark, however fatuous, no matter how obscure or young the speaker, was heard to the very end with a respect that the weaker members found maddening. The general subject was liberalism and no one was in any doubt about Hayek's convictions. But students who hoped to shine by discovering apostasy to an official creed learned to seek other paths to glory. Hunting for the holy grail was definitely out of order. The seminar was a conversation with the living and the dead, ancient and modern; the only obligation was to enter into the thoughts of others with fidelity and to accept questions and dissent gracefully. (*Essays on Hayek*, p. 148)


As history remembers Hayek it will be told that his great quest was to ask why liberty is so slippery to

our grasp. While other current social scientists have devoted their research to discovering programs to replace free and spontaneous human interactions by imposed "scientific" solutions, Hayek has prowled about to find why classical liberalism, which has given Western Man so very much, is being cashed in for a statism which promises neither peace nor freedom. Nor, most obviously, prosperity. In fact, socialist, real-world experience has been so bitterly painful that those contemporary reformers who clamor for increased state intervention have given up the pretense that such controls can give us more than free markets and free men. Instead they argue that material well-being and economic improvement are memories gone by and that the future holds a more modest portfolio. That the government will be in charge of choosing this portfolio helps to guarantee the claim, so that the confident prophecy is self-fulfilling and recyclable.

Yet, for those who would rather look to a future which offers liberty for the oppressed and progress for the poor, there can be no better resource guide than the writings of F. A. Hayek. His fine and sensitive touch with the subtlest workings of human (and humane) civilization will sprinkle us with understanding for millennia to come.

It is, of course, juvenile to debate

any scholar's place in history's archives, particularly when we are still blessed to have him among us. Yet, what can safely be claimed is that if the generations to follow are lucky—very lucky—it will come to

pass that our Twentieth Century was not the age of the Hitlers, the Stalins and Mao Tse-tungs; but rather the time of the Einsteins, the Solzhenitsyns, and the Friedrich von Hayeks. 

WHAT is threatened by our present political trends is not just economic prosperity, not just our comfort, or the rate of economic growth. It is very much more. It is what I mean by the phrase "our civilization." Modern man prides himself that he has built that civilization as if in doing so he had carried out a plan which he had before formed in his mind. The fact is, of course, that if at any point of the past man had mapped out his future on the basis of the then-existing knowledge and then followed this plan, we would not be where we are. We would not only be much poorer, we would not only be less wise, but we would also be less gentle, less moral; in fact we would still have brutally to fight each other for our very lives. We owe the fact that not only our knowledge has grown, but also our morals have improved—and I think they *have* improved, and especially that the concern for our neighbor has increased—not to anybody planning for such a development, but to the fact that in an essentially free society certain trends have prevailed because they made for a peaceful, orderly, and progressive society.

This process of growth to which we owe the emergence of what we now most value, including the growth of the very values we now hold, is today often presented as if it were something not worthy of a reasonable being, because it was not guided by a clear design of what men were aiming at. But our civilization is indeed largely an unforeseen and unintended outcome of our submitting to moral and legal rules which were never "invented" with such a result in mind, but which grew because those societies which developed them piecemeal prevailed at every step over other groups which followed different rules, less conducive to the growth of civilization.

F. A. HAYEK, remarks in *What's Past Is Prologue*, 1968