Hayek
For Tom, Corinna, and Sarah
While it may not be difficult to destroy the spontaneous formations which are the indispensable bases of a free civilisation, it may be beyond our power deliberately to reconstruct such a civilisation once these foundations are destroyed.

Hayek, *The Road to Serfdom*

There is simply no other choice than this: either to abstain from interference in the free play of the market, or to delegate the entire management of production and distribution to the government. Either capitalism or socialism: there exists no middle way.

Mises, *The Free and Prosperous Commonwealth*
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Hayek has long held a peculiar fascination for me, connected as he is with so many of the themes and problems which have interested me since I was a graduate student. Many of these obsessions appear in some form in these pages. David Held first suggested that I should turn some of my thoughts on Hayek into a book. I did not think it would take me as long as it has, and I am conscious of only having scratched the surface of some topics. The more I have explored Hayek, the more aware I have become of the complexity and range of his thought and the difficulty of some of the issues he raises, for which we lack answers. What I have tried to do here is to provide an assessment and a critical analysis of Hayek’s achievement, to indicate some of the limitations of his thought, and to suggest why he is still relevant to us.

One of my particular interests in Hayek is his role in the ideological change in the British Conservative party in the 1970s. One of the origins of this book, as well as much other work I have done in the last fifteen years, is the article ‘The Free Economy and the Strong State’ published in the Socialist Register in 1979. The exploration of Hayek as an ideologue remains one of the central themes of the book. But I have also become interested in the contrast between Hayek the ideologue and Hayek the social scientist, and the extent to which he failed to develop many of his insights because of the ideological closures he imposed on his work. These ideological closures have also been responsible for Hayek not reaching a wider readership. It has been too easy to dismiss him as engaged in a forlorn project to restore the liberalism of an earlier era. I hope to have shown that there is great deal more to Hayek than that.
I have incurred many debts in the writing of this book. An invitation to a Liberty Fund symposium on the relationship between ideas, interests, and circumstances was very valuable at an early stage, and I particularly benefited from conversations with Arthur Seldon, David Willetts, John Burton, and Norman Barry among others about some of the general themes of the book. Others from whom I have learnt a great deal include Raymond Plant, Richard Bellamy, Martin Durham, Hilary Wainwright, Andrew Denham, Rodney Barker, and Jeremy Shearmur. David Miliband invited me to give a presentation on Hayek to an Institute of Public Policy Research seminar which produced a lively exchange, and I have also benefited from seminar discussions at Kobe, Strathclyde, Manchester, Cambridge, the London School of Economics, Edinburgh, and Nuffield.

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Andrew Gamble
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Introduction: Rethinking Hayek

Every social order rests on an ideology.
Hayek, Law, Legislation, and Liberty

When Hayek died in Freiburg on 23 March 1992, the obituaries paid tribute to him as a central figure in the intellectual history of the twentieth century. But the nature of his achievement remains controversial. In the course of his long life – he was born in Vienna on 8 May 1899 – he contributed to many different academic disciplines – economics, political science, the history of ideas, philosophy, and psychology – without being identified exclusively with any one of them. He was always a polymath. Speaking of his time at the University of Vienna, he once said, 'In the University the decisive point was simply that you were not expected to confine yourself to your own subject.' He followed this principle throughout his academic career. In a century of increasing intellectual specialization, Hayek moved firmly in the other direction.

This fact alone would make it difficult to assess his achievement. But what makes it even harder is that he had two intellectual personas. He was a patient, thorough, wide-ranging scholar, who emerged as one of the most important and original thinkers of the century, but also as one of the century's most renowned ideologues, a leading critic of all forms of socialism and collectivism and a passionate advocate of classical liberalism.

One of my purposes in this book is to argue that Hayek's reputation as an ideologue has for long been a barrier to a wider appreciation of his intellectual contribution to social science. This is hardly
Introduction: Rethinking Hayek

surprising. The two are hard to disentangle, because Hayek for the most part saw no reason to keep them apart. His ideological views flow from the same methodological assumptions as his scientific work, and his writings are all part of the same intellectual project.

This is not how many have seen him, however. One view of his career quite common among his critics is that he was a failed economist who abandoned serious academic work in the 1940s for extravagant ideological polemics against even mild forms of state intervention. Having begun as a theoretical economist who made some contributions to business cycle theory and monetary theory from the Austrian school perspective during the 1930s, Hayek then found himself on the losing side in two major theoretical debates: the first with Maynard Keynes over monetary theory and the causes of the Depression, the second with Oscar Lange over the feasibility of economic calculation in a socialist economy. The apparent failure of his research programme and the conversion of so many economists to the new Keynesian paradigm persuaded Hayek to abandon theoretical economics midway through his career and take up social and political theory. Starting with *The Road to Serfdom*, published in 1944, which warned that even mild government intervention and redistribution could lead to totalitarianism, he became an implacable critic of all forms of socialism and collectivism, setting himself the task of restating and reviving the principles of nineteenth-century political and economic liberalism which he believed were in danger of being forgotten.

The substance in this view is that there was a major change of direction in Hayek's career. In the 1930s he was a leading and respected member of the economics profession. Keynes's view of him (which Hayek himself quotes) was that 'of course he is crazy, but his ideas are also rather interesting'. Outside the narrow circle of professional economists, he was little known. The publication of *The Road to Serfdom* changed all that. It made Hayek a celebrity, particularly in the United States. Lecture tours, radio debates, and newspaper articles expounding his views followed. He received great adulation in some quarters, but in the economics profession he was no longer regarded by most as a serious figure. The economics department at the University of Chicago even refused to consider him for a chair. Eventually the Committee of Social Thought at Chicago came to the rescue, and appointed him to a chair in social and political theory. This marked the end of his formal career as an economist.

His reception among political scientists and social and political
Introduction: Rethinking Hayek

philosophers was little better, however. He was ignored or belittled for many years as pedlar of an antiquated, reactionary creed. His greatest book, *The Constitution of Liberty*, published in 1960, was regarded as a grand folly, a last spasm of nineteenth-century *laissez-faire* liberalism, which the world had left behind. Hayek was seen as a Don Quixote fighting enemies which only existed in his imagination. George Lichtheim wrote in his review:

> With its remorseless extrapolation of the logic inherent in the liberal doctrine, its unflinching demonstration that individualism is incompatible with the vital needs of modern society, this massive work stands as both a timely warning to political philosophers and as an impressive monument to a myth.³

But Hayek was a more formidable figure than many of those who dismissed him in the 1950s and 1960s realized. In the 1970s and 1980s the ideology he had espoused for so long proved to be not so moribund after all, and by the 1990s new interest was beginning to be expressed in his economics, amidst realization that some of his insights had been neglected during the Keynesian and monetarist ascendancy of the previous forty years, and that he offered a way of thinking about economic co-ordination problems which had not been surpassed.⁴

The improvement in Hayek’s standing was closely linked with the revival of the fortunes of economic liberalism and its renewed ascendancy as public doctrine in both Britain and the United States. Hayek became one of the main inspirations for many of the currents of thought which made up the New Right of this period. He also belatedly began to receive academic recognition and public honours. But this hardly amounted to full rehabilitation. The partisanship of his followers and his association with conviction politicians like Margaret Thatcher only helped confirm the earlier image of him as an ideologue rather than a serious thinker.

Rescuing Hayek from fifty years of ideological stereotyping is not an easy task, and Hayek himself is often of little help. In time, however, the ideological components of Hayek’s work may fade, as his contribution to social science comes to be better understood. One of the arguments of this book is that some of Hayek’s most important insights remain undeveloped in his writings because of the ideological closures he imposed on his work. Often his questions are more interesting than his answers. Critics of Hayek, feeling themselves to be in the presence of an ideological adversary,
have often concentrated on rebutting his arguments or criticizing his assumptions, rather than exploring his questions. Hayek often gives his opponents little incentive to do otherwise. But in the last ten years this has begun to change. It used to be the case that Hayek was taken seriously only by those who were ideologically sympathetic to his position. This is no longer true. There is especial interest in his economics, particularly his theory of knowledge and his theory of spontaneous order, and the methodological assumptions which underlie them. Beyond this, there is also a new appreciation of the strengths as well as the limitations of Hayek’s account of liberalism and modernity.

The first reason for rethinking Hayek is that the long ideological war of position in which he was involved throughout his life is over. Reflecting on Hayek is one way of reflecting on what was at stake in that struggle, and who had the better arguments. Hayek turns out to have been more right than wrong. Many of the earlier judgements of him were misplaced or misinformed. Hayek often had greater insight than his critics into the organization of modern society, even if some of his ideas are crudely expressed, or are expressed in such an extreme way that many who might otherwise have been sympathetic were led to reject them.

The second reason for rethinking Hayek is to assess his work as an account of the nature of modernity. Which of Hayek’s insights into social and economic organization transcend the ideological controversies in which he was involved? Confident declarations at the end of the twentieth century that not merely ideology but history itself is over have focused renewed attention on the meaning of modernity and the claims which are common to all versions of the modern project. Hayek provides a particular account of modernity and its economic, social, and political dimensions, based on arguments about the nature and distribution of knowledge in society and the relationship between reason and tradition.

The scope of his work and the scale of his achievement need to be registered. He may well prove to be one of the last Western thinkers to attempt to rethink from first principles the nature of Western civilization and the institutions and rules which are central to it. What spurred Hayek to do this was his desire to resist the encroachment of collectivism and socialism. If Hayek had not had an ideological vision of the modern world, he might be remembered now only for a scholarly technical contribution to economics, but the wider implications of his economic ideas for theories of knowledge and social order would not have emerged. What makes
him of interest to us, and far more than just an ideologue, is that, like all truly great social and political thinkers, his thought is full of contradictions and tensions, and is capable of many different interpretations. He was operating at a level such that his insights in one field have implications which conflict with his assumptions or conclusions in other fields. Sometimes he himself was only partly aware of some of these implications, and sometimes he failed to develop them. But many of his ideas have a life beyond the particular ideological form he chose to give them, and raise general issues about the nature of modernity and social change which remain at the heart of contemporary social theory, even if many of his own answers are inadequate or flawed.

The Crisis of Liberalism

In order to understand Hayek’s work, it is therefore necessary to explore his ideological as well as his intellectual formation. Hayek was eighteen years old at the time of the Bolshevik Revolution in 1917, thirty-one when Hitler came to power, thirty-three when Roosevelt launched his New Deal, and thirty-seven when Keynes published his *General Theory*. He lived just long enough to witness the opening of the Berlin Wall in 1989 and the collapse of communism in Russia in 1991. He lived through the whole of the short twentieth century between 1917 and 1991: the destruction of the liberal global economic order and its state system, the rise and collapse of totalitarian movements and regimes, the Great Depression, the Second World War, the establishment and subsequent weakening of United States hegemony, the disappearance of the European colonial empires, the long boom, the growth of the state, and the cold war with communism.

During the first half of this period, liberalism as a public doctrine was widely perceived to be losing ground in its battle with new collectivist doctrines whose common feature was that they justified an extended role for the state. The doctrine of liberalism as it had developed in the nineteenth century was generally regarded as having declining relevance to the circumstances of advanced industrial societies. In the 1930s the slogan ‘Forward from Liberalism’ expressed a sentiment shared by many different movements and parties. Liberalism was seen as belonging to an era that was past.

The ideological challenge to liberalism came not just from
totalitarian doctrines such as fascism and communism, but also from the programmes for social amelioration through state action which were increasingly adopted by parties of the Centre Right and Centre Left. As suffrages were extended and mass democracies created, so the pressure for increasing the scope and the scale of collectivist programmes of public provision in the fields of welfare, economic development, and military defence was intensified. The extension of democracy came to be seen as synonymous with the extension of the spending and regulatory powers of the state. Politicians became subject to the new discipline of winning support from the electorate and organized interests, making use of the new mass media. Old Liberal parties tended to be marginalized in a double sense. They were often slow to adjust to the requirements of the new mass politics, and they obstinately clung to their beliefs in the simple verities of free trade, balanced budgets, and laissez-faire. They were challenged by New Liberals, who developed liberal arguments to justify limited measures of intervention and redistribution, and by the collectivist wing of the socialist movement, which, in the new circumstances of an extended franchise, increasingly favoured using the agency of the state to achieve socialist goals.

The rise of collectivism as a public doctrine in the heartland of liberalism was the basic theme of A. V. Dicey's Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century. Dicey argued that from around 1860 collectivist doctrines had begun to supplant individualist doctrines in their hold on public opinion, and that, as a result, legislation was increasingly reflecting collectivist principles, a trend he deplored. He pointed in particular to legislation on trade unions and social security. Individualist principles were everywhere on the defensive as the collectivist tide flowed in.

The anxieties of many liberals at the beginning of the twentieth century echoed the fears which had long been expressed by both conservatives and liberals about the dangers of democracy. The potential domination of the poor and the ignorant through the ballot-box appeared to threaten the maintenance of property rights and the rule of the wise and the best. Conservatives adjusted more readily to the challenge of mass democracy, seeking ways of mobilizing voters which could cut across class. Old Liberals found it much harder, partly because of their lack of sympathy with any form of collectivism.

The new collectivist doctrines could have taken a very long time
to replace liberalism as the dominant public doctrine in Britain and the United States. But their triumph was speeded up by a series of cataclysmic events, in particular the two world wars and the Great Depression of the 1930s, which destroyed the liberal world order and undermined many liberal institutions. These events helped sustain claims that liberalism, whatever its merits, had simply become irrelevant as a guide to policy in increasingly interdependent and highly organized industrial societies.

The growing conviction in the first half of the twentieth century that the age of liberalism was over was reflected in two influential books of the 1940s, both written by citizens of the former Austro-Hapsburg Empire, who, like Hayek, ended up outside it: Karl Polanyi’s The Great Transformation and Joseph Schumpeter’s Capitalism, Socialism, and Democracy. Polanyi was a Hungarian, a socialist and an economic historian, Schumpeter an Austrian, a conservative and an economist. Both regarded the liberal order and liberal civilization of the nineteenth century as something that had passed away and could not be revived. Both saw the future as belonging to some form of collectivism or socialism.

Polanyi argued that the liberal order had finally come apart in the 1930s. The landmarks of this change were:

... the abandonment of the gold standard by Great Britain; the Five-Year Plans in Russia; the launching of the New Deal; the National Socialist Revolution in Germany; the collapse of the League in favour of autarkist empires. While at the end of the Great War nineteenth century ideals were paramount, and their influence dominated the following decade, by 1940 every vestige of the international system had disappeared and, apart from a few enclaves, the nations were living in an entirely new international setting. But Polanyi argued that the reasons for the disintegration of the liberal order went deeper. Nineteenth-century civilization was not destroyed by external attack or overthrown from within by social revolution; nor did it fall victim to some iron law of political economy, such as the falling rate of profit. The true reason, according to Polanyi, was different: it was the measures that society had been forced to adopt in order not to be annihilated by the action of the self-regulating market: ‘the conflict between the market and the elementary requirements of an organised social life... produced the typical strains and stresses which ultimately destroyed that society’. 

Polanyi argued that the market order was not a spontaneous, natural development, but the result of deliberate policy. It had given rise to great dynamism and progress, but at great cost, and socialist and conservative political movements had arisen to curb it. Polanyi thus traced the demise of the self-regulating market to the workings of the market order itself.

This was a conclusion with which Joseph Schumpeter was in substantial agreement, although his analysis of the causes was different. In *Capitalism, Socialism, and Democracy* he announced that the era of capitalist civilization was at an end. The future belonged to collectivism and socialism, in the sense of state ownership and control of the economy. Capitalism had undermined its own foundations. It had applied its utilitarian calculus of profit and loss to all the institutions which had protected its rise and given legitimacy to the social order. Capitalism now had to face its own rationalist weapons being turned upon itself. 'Can Capitalism survive?', asked Schumpeter, replying: 'No, I do not think it can.' The future industrial society would be collectivist, organized, and highly regulated. Polanyi and Schumpeter reflected a wide ideological consensus. Many liberals and conservatives hoped to avoid a full collectivization of society and the economy, but there was resigned acceptance of the need to extend further the powers of the state, in order to provide the security and the prosperity which would preserve the legitimacy of the social order. If liberals and conservatives did not help to reform market economies in this way, the initiative would pass to those advocating more drastic social change.

At the same time, however, as Polanyi and Schumpeter were making these predictions, Hayek was sounding a very different note. In *The Road to Serfdom*, published in 1944, he agreed that the trends were overwhelmingly pointing towards the triumph of collectivism and that liberals had become isolated. There was hardly anyone active in politics, he complained, who was not a socialist. But Hayek differed from Polanyi and Schumpeter in believing that there was nothing inevitable about this triumph of collectivism. It had come about through the ascendancy of a set of doctrines which were deeply flawed in their understanding of the basis of Western civilization and its success. Hayek claimed that the consequences of continued application of these doctrines would be so serious that they would be discredited, and there would be a return to the principles of classical liberalism.

Hayek's certainty was rooted in his conviction that the basic ideas of nineteenth-century liberalism did not constitute just an-
other ideology. They were grounded in reality, and provided the only possible doctrine to guide policy in modern society. Hayek believed as firmly in scientific liberalism as any Marxist in scientific socialism. The ideas of classical liberalism were true and relevant, while all other doctrines were literally utopian. They had no relevance to the modern world, and if an attempt were made to put them into practice, the outcomes would be not only quite different from what was intended, but highly damaging as well.

The Liberty Crusade

In 1947 Hayek helped to found the Mont Pèlerin Society, a liberal international, composed of liberal intellectuals from many disciplines dedicated to the recovery of liberal principles and the overthrow of collectivism. It built on an initiative first launched in 1938 in Paris, Le Colloque Walter Lippmann. At first, progress was slow. Although there was a recovery of liberalism and a decline in the appeal of collectivist ideas in many countries in the 1950s, there were few signs of a return to the old certainties of nineteenth-century liberalism. When Daniel Bell and others spoke of an end of ideology at the end of the 1950s, they meant that the ideological battle between individualism and collectivism had lost its intensity. As Lipset put it:

the fundamental political problems of the industrial revolution have been solved: the workers have achieved industrial and political citizenship; the conservatives have accepted the welfare state; and the democratic left has recognised that an increase in over-all state power carries with it more dangers to freedom than solutions for economic problems.

Hayek believed that it was not enough to reach a compromise with the forces of collectivism, however. All the territory that had been lost must be reclaimed. Through his writings and other activities he played an important part in establishing independent research institutes and think-tanks, most significantly the Institute of Economic Affairs in Britain. Libertarian and liberal-conservative think-tanks and foundations grew rapidly in the 1970s and 1980s, in both Britain and the United States, and Hayek was universally recognized as the leading thinker and mentor of both libertarian and liberal-conservative strands in the New Right.
The emergence of the New Right and the strength of the doctrines of neo-liberalism throughout the 1970s and 1980s and their espousal by influential political leaders and political movements in many countries signified the triumph of Hayek’s lonely crusade. From a position of great isolation and apparent irrelevance in the 1940s, he found himself thirty years later the acknowledged leader of the new political orthodoxy, the intellectual guide of prime ministers and presidents, the icon of a rapidly growing worldwide political movement, and the recipient of numerous honours, including the Nobel Prize for Economics and the Companion of Honour. The award of the former was ironic on two scores: first, because he received it for economics, a discipline which no longer recognized him as one of its leading figures, and second, because he shared it with Gunnar Myrdal, an economist of a very different methodological and political persuasion.

As the veteran of so many intellectual and political battles during the twentieth century, Hayek was understandably jubilant in his last years. ‘Surely’, he declared, ‘it is high time for us to cry from the house tops that the intellectual foundations of socialism have all collapsed.’ Like an Old Testament prophet, he had stood firm and had proclaimed his faith while many around him who once shared his values had deserted the cause in the name of pragmatism and realism. In retrospect, he came to see the period between 1848 and 1948 as what he called the ‘socialist century’. But now it was over. The long wave of collectivism had spent itself. It had threatened, but in the end had not destroyed, the individualism that Hayek regarded as the foundation of Western civilization.

In the decades since 1948, the influence of socialism as a doctrine had waned, and socialist regimes had collapsed. The opening of the Berlin Wall in 1989 and the subsequent overthrow of Communist regimes throughout East and Central Europe, culminating in the downfall of communism in the Soviet Union in 1991, set the seal on the victory of liberalism. By the time of Hayek’s death in March 1992, the cause to which he had been intellectually and politically committed since the 1920s appeared to have triumphed.

Vienna

An appreciation of Hayek’s intellectual formation is crucial for understanding his thought, and it has received increasing attention in recent years. Friedrich August von Hayek was born into a well-established, well-connected Austrian family. His father was a
doctor and a botanist, who never achieved his ambition of becoming a full university professor, but who instilled in his son the importance of science as a vocation. Through his mother, Hayek was related to Wittgenstein. He grew up during the last phase of the Austro-Hungarian Empire, at a time when Vienna was undergoing a remarkable burst of intellectual creativity in art, literature, music, science, philosophy, psychology, and economics.\textsuperscript{15}

Hayek briefly served in the Austrian army in an artillery regiment on the Italian Front at the end of the First World War. He began his studies at the University of Vienna in November 1918. His main intellectual interest at this time seems to have been psychology, but he also had to think of a future career, so he enrolled for a law degree, in order to secure a qualification which would make him eligible to enter the legal profession or the civil service. What it also offered was a grounding in economics.

Despite the dislocations of the war, the University of Vienna still offered at this time a distinctive intellectual experience. This was crucial for Hayek's intellectual formation, and gave him a breadth of outlook which he never lost. Among the approaches he encountered which had a profound influence on his social theory were the Austrian school of economics based on the works of Carl Menger; Kantian philosophy and the particular kind of liberalism which was associated with it; and the positivism of Ernst Mach and Moritz Schlick (founder of the Vienna circle), in philosophy and psychology.

The Austrian school of economics influenced his choice of topics to study, but his fundamental methodological and theoretical assumptions came from the philosophical positions on knowledge and mind that he adopted at a very early age, and never abandoned. John Gray has argued convincingly that the key to Hayek's philosophical standpoint is to be found in \textit{The Sensory Order},\textsuperscript{16} a work of psychology and philosophy which was drafted in the 1920s but not published until 1952.\textsuperscript{17}

\textit{The Sensory Order} is based on Kantian assumptions about knowledge. First, direct knowledge of the physical world is impossible. We cannot know the world as it is. Secondly, the order that is found in our experience is constructed by our minds. It follows that it is impossible to have a complete knowledge of the world or to stand outside the world. All knowledge is partial and immanent, because the mind is seeking to make sense of a reality of which it is itself part. The task of philosophy, therefore, is a modest one. It has to discover the limits of reason, rather than elevate reason above experience or lay claim to a knowledge beyond experience.
Such a view of knowledge makes theory and theory building an indispensable feature of the human condition. All human beings have to theorize. There are no facts and no knowledge which exist independently of theory, the constant activity of human minds to construct an order out of the myriad experiences presented to them. Science is the activity which seeks a set of deductive principles which can provide a more comprehensive understanding of the phenomena of experience.

In some versions of Kantianism, such as the praxeological theory of Ludwig von Mises, the theory building proceeds without any empirical reference at all. The deductive principles once arrived at are claimed to be axiomatically true, tools for understanding empirical phenomena, but not capable of being refuted by them. Hayek never subscribed to this position. The influence of Mach and, later, Popper led him to accept that within the framework of concepts established by scientific theories there was a wide area in which empirical testing of hypotheses was relevant.¹⁸

Many of Hayek's distinctive positions in social theory and liberal thought can be related to his Kantianism.¹⁹ Like Kant, he rejects natural rights as a basis for justice, seeing justice as based instead on procedural arguments, drawing on the Kantian-inspired conception of the Rechtsstaat. Order in both science and society depends on the identification of rules and conditions which can be universalized. The establishment and enforcement of these general rules provide the criteria for defining the character of the outcomes without determining in detail what those outcomes are.

In The Sensory Order Hayek argues that the human mind is engaged in a continuous process of classification and reclassification of experiences, and that the complexity of the classifications tends to increase, as human beings learn new ways of understanding and ordering their experience. Hayek distinguishes between the physical order of external events and the sensory order of the human mind. The sensory order is a microcosm, part of the macrocosm of the physical order, because the way in which the mind works through the central nervous system is part of the physical order. Hayek argues that the possibility of knowledge of the macrocosm comes about because of the formation of a microcosm within it (the human mind) which is capable of reproducing enough aspects of the macrocosm to allow the microcosm to continue to exist. However, there are strict limits to what can be achieved. It is impossible for something to classify something else unless it has a greater degree of complexity. As a part of the physical order, the human
mind is less complex than the order it is seeking to understand. This implies that the human mind can never fully comprehend itself. The knowledge we gain of the world is necessarily partial and limited, and is dependent on the fact that there are certain recurrent patterns and general abstract rules which the human mind can grasp and reproduce. The more developed the human mind becomes, the more complex the classification systems it uses, and the greater the congruence, it is assumed, between the physical and the sensory order.

From this philosophical theory of mind, Hayek derived a lasting concern with the conditions which make knowledge of both the social world and the natural world possible and the limits to that knowledge. His work in economics, and subsequently in social and political theory, was an attempt to work through the implications of his philosophical ideas. But these ideas were themselves developed through his engagement with one of the most powerful intellectual perspectives current in Vienna – the Austrian school of economics.

The Austrian School

The Austrian school was based on the work of Carl Menger (1840–1921), professor at the University of Vienna from 1873 until his retirement in 1903. His two key books were Grundsätze der Volkswirtschaftslehre (1871), which was a seminal work in developing the subjective theory of value and the conception of marginal utility, and Untersuchungen über die Methode der Sozialwissenschaftlichen und der politischen Ökonomie insbesondere (1883), which launched the Methodenstreit between Austrian theoretical economics and the German historical school.

Hayek never met Menger personally, but he had already read the Grundsätze before entering university, where he attended the seminar of Friedrich von Wieser (1851–1926), one of the most important of the second-generation members of the Austrian school. Wieser was one of a number of economists, among them Eugen von Böhm-Bawerk, who were converted to Menger’s doctrine and played a key role in developing and communicating his ideas as a new and distinctive school.

Hayek always revered Wieser as his first teacher. But the more important intellectual influence upon him was Ludwig von Mises (1881–1973), a third-generation member of the school, who had been a member of Böhm-Bawerk’s seminar. Hayek began attending
Mises’ seminar in the early 1920s, and this, more than anything else, appears to have been decisive in his intellectual formation. Wieser had inclined to Fabianism in his political views, offering a defence, for example, of progressive taxation. Hayek admits that his motive for studying economics was initially a Fabian desire to find ways to intervene in society to improve the position of the people. Mises shook him out of that. Hayek later wrote that it was insight into the economic problems of society that made him a radical anti-socialist. It was Mises who convinced him of what precisely those economic problems were.\(^{22}\)

The importance of the Austrian school of economics for Hayek’s intellectual development was that the school was part of the new mainstream in the development of economics as an international discipline; yet it also had distinctive characteristics which set it apart – in particular its methodological approach and its analysis of institutions. Menger, together with Léon Walras and Stanley Jevons, had been one of the pioneers of the marginalist revolution in economics in the 1870s and 1880s, which created the analytical basis for modern economic analysis. The marginalist revolution created a new paradigm for economics by breaking decisively with the labour theory of value of both classical political economy and Marxism. Economics became focused on the analysis of the problems of choice and allocation under conditions of scarcity, rather than the problems of the origins of the wealth of nations.

The Austrian school was noted not only for its part in developing the subjective theory of value, but also for its strong identification with political liberalism. Several leading Austrians, notably Böhm-Bawerk and then Mises, became prominent defenders of liberal capitalism against intellectual and political attack. The attack after 1880, in both Austria and Germany, came mainly from the rise of strong social democratic movements whose major intellectual influence was Marxism.

The Austrian school was hostile to Marxism on methodological as well as political grounds. Its position was formed in the fierce intellectual debate which became known as the Methodenstreit in the German-speaking world, and which was an important moment in the formation of the separate disciplines of economics, on the one side, and sociology, economic history, and political science on the other. The main contestants were Gustav Schmoller, representing the historical school, and Carl Menger representing the economic school. The debate began with Menger’s book on the methodology of the social sciences, to which Schmoller wrote a
sharp rejoinder. Menger then wrote a pamphlet in reply, which Schmoller refused to have reviewed in his journal. Followers of the two leading figures carried on the battle. The dispute was so bitter that it soon influenced academic appointments. Applicants strongly identified with one of the two factions found it impossible to get appointments at universities where the other faction was dominant.

The key issue in the *Methodenstreit* was the question of relativism. Was truth relative to the concepts formed in particular historical contexts, or were there certain concepts which were true in all times and all societies? But the dispute between the two schools also concerned broader issues of political economy. The arguments of the historical school provided justifications for policies of nationalism and protectionism, stressing the unique character of German institutions and German development. The Austrian school, by contrast, was universalist, which derived in part from its methodological individualism,\(^{23}\) and in part from the tradition of German liberalism associated with Kant and the idea of the *Rechtsstaat* – a government of universal laws which prescribed strict limits for government intervention in civil society.

By coming under the influence of Mises, Hayek received a training as an economist which made him not just a supporter of marginalist economics, but also a committed liberal and an anti-socialist and anti-collectivist. Out of the political and intellectual battles with the historical school and with Marxism, several members of the Austrian school fashioned an uncompromising defence of capitalism and liberal institutions. Eugen von Böhm-Bawerk, for example, who was briefly Austrian Finance Minister before 1914, was the author of a noted critique of Marx's economics, *Karl Marx and the Close of his System*, which claimed (incorrectly) to have discovered fatal logical flaws between the first and the third problems in the construction of *Capital*. But the political character of Austrian economics was most clearly set by Mises, who developed a line of enquiry suggested by Böhm-Bawerk before his death in 1914. Mises offered no concessions to those fashionable trends of thought which sought accommodation with collectivism. By the time Hayek left Austria, he was fully inoculated against sympathy with interventionist or collectivist ideas, and equipped with a firm intellectual case.

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Hayek received his doctorate in jurisprudence in 1921. Wieser gave him a letter of introduction to Mises, who found him a job as a
temporary civil servant in the Office of Accounts. It was at this time that he began attending Mises’ seminar. Other members of the seminar in the 1920s who later became famous economists included Gottfried Haberler (1900– ), Fritz Machlup (1902–83), and Oscar Morgenstern (1902–77). In 1923–4 Hayek visited America at the invitation of Wesley Mitchell, where he learnt to speak fluent English and observed the theoretical naïveté of much American economics, but also its technical sophistication. On his return to Vienna, Hayek established with Mises an Institute for Business Cycle Research, and became its first director.

Hayek did not stay in Vienna for long, however. Lionel Robbins, who had been strongly influenced by some of the ideas of the Austrian school and had made several visits to Vienna, invited Hayek to the London School of Economics and Political Science as a visiting professor for 1931–2. Hayek made such an impression with his lectures²⁴ that he was subsequently offered the Tooke Professorship of Economic Science.

Hayek stayed at the LSE for eighteen years, finally leaving for a chair at the University of Chicago in 1949. This phase of his life was extremely important, because it is that of his principal contributions as an economic theorist, his participation in the debate on economic calculation under socialism, as well as the publication of *The Road to Serfdom* in 1944, which was to change the subsequent direction of his research programme.

At the LSE Hayek was part of a group of economists, including Lionel Robbins and Arnold Plant, who became noted for their opposition to the new thinking associated with Keynes for dealing with the problems of unemployment and the trade cycle. One of the motives Robbins had in bringing Hayek to London was to reinforce those members of the profession who were critical of Keynes's theories and their political implications. Robbins and Hayek formed a very close personal and professional bond, but drifted apart when Robbins was drawn into working for the state during the Second World War. As Hayek ruefully put it, 'Robbins and I became very close friends, we worked beautifully together, and from 1931 till 1940 we were thinking together and working together. Then I’m afraid he fell under Keynes’ influence.’²⁵

Hayek spent most of the 1930s patiently applying Austrian insights into the nature of the capitalist economy to problems of capital theory and the business cycle.²⁶ As with all Austrian economics, this research programme directed attention to the micro-foundations of economic behaviour. But it was sidelined by the
rapid switch to the new macro-economic paradigm which Keynes created for economics in *The General Theory of Interest, Employment and Money*. Hayek was out of sympathy with Keynes's theoretical approach, and even more with what he believed to be its consequences for policy; yet he produced no major critique of it directly. What he did instead was to provide a critique of Keynes's liberalism by issuing a warning about the direction in which English liberalism was headed.

Living in England gave Hayek firsthand experience of the liberal tradition and liberal institutions which he so much admired. But it also made him fearful that the great achievements of English liberalism were in danger of being lost, just as the early promise of German liberalism had been lost in the avalanche of collectivist thought and the rise of socialist movements after 1880.

Hayek had not originally planned to stay in England for as long as he did, but the establishment of the Nazi regime in Germany in 1933 and the Anschluss with Austria in 1938 made return to the German-speaking world impossible. He became an exile. But although he took British citizenship in 1936, he never sought a career in public life in England, as he might well have done had he remained in Austria. Many other members of the Austrian school, including Menger himself, had been drawn into public service. But Hayek found himself confined to the life of a scholar. He would have preferred a life which combined academic and public work. Other exiles made the transition, but not Hayek.

Hayek developed a deep love of England and of English manners. (Only the mountains in the Austrian Tyrol, which he returned to every year, had a comparable emotional attraction for him.) He particularly admired the style of academic life in Cambridge, which he got to know well when the LSE moved there during the Second World War. Keynes obtained rooms for him at King's. He returned to London when the war was over, and shortly after left for the United States. The controversy aroused by *The Road to Serfdom* played only a small part in the decision; a more pressing reason for leaving England was his divorce and remarriage, which created difficulties for Hayek with many of his English friends. It finally severed his close friendship with Robbins, who felt that Hayek had behaved very badly towards his first wife. The two families had been near neighbours in the 1930s and knew each other well. Hayek and Robbins hardly spoke for ten years.

During his time at LSE, Hayek was mostly preoccupied with theoretical economics. But he was also drawn into the economic
calculation debate (discussed in chapter 3). Economic calculation under socialism had been a major topic of discussion in both Wieser’s and Mises’ seminars in Vienna. In 1935 Hayek edited a book entitled *Collectivist Economic Planning* which brought together Mises’ original 1920 article, which argued that economic calculation under socialism was impossible, articles by a number of Mises’ critics, such as Oscar Lange and H. D. Dickinson, as well as contributions by Hayek and Robbins. Hayek wrote the introduction and the conclusion to the volume.\(^{27}\) It seems to have been this renewed involvement in broad issues of political economy or what Schumpeter called *Sozial Ökonomik* that not only led Hayek to his most profound insight into the way in which economies function but also changed the course of his work. *Collectivist Economic Planning*, rather than *The Road to Serfdom*, is perhaps the true turning-point of Hayek’s career.

The direct consequence of the rethinking of the methodological problems of studying economics which the calculation debate inspired was the seminal 1937 essay ‘Economics and Knowledge’,\(^{28}\) regarded by many as his single most important work. In this essay he began to explore the character of knowledge in a market economy. He had realized that the concept of knowledge assumed by both Lange and Mises was fundamentally flawed, because it remained rationalist. Despite disagreements between them, both assumed that the function performed by the market could be understood intellectually, and therefore, in principle, improved upon. By rejecting the rationalist assumption that the mind could know itself and could therefore master reality, Hayek challenged the epistemological basis of all modern economics.

Hayek himself came to see the 1937 essay as ‘the decisive point of the change in my outlook’.\(^{29}\) It supplied him with the essential foundation from which he developed his political and economic views. Participation in the calculation debate reinforced his belief in the essential correctness of the economic principles of the founders of the Austrian school, particularly Carl Menger. Mises’ argument was fundamentally correct, but its formulation conceded too much to the position it was criticizing. Returning to the anti-rationalist foundations of Austrian economics also meant recovering the anti-rationalism of the Scottish political economists and David Hume. Hayek began to see that anti-rationalism was a distinct position within economics and philosophy, from which to analyse modernity and to understand economic and political trends. An anti-rationalist outlook provided the only secure basis for the policy
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precepts of classical liberalism. Rationalism, or ‘constructivism’ as Hayek called it, led inexorably to socialism and collectivism. The infection of all modern ideologies, even liberalism, by rationalism meant that classical liberalism was being abandoned everywhere, even in England, its heartland.

The Turn to Politics

The issues raised in ‘Economics and Knowledge’ and Collectivist Economic Planning pointed to a very different research programme than the one on which Hayek was engaged.\(^3\) It moved beyond the rather narrow, technical debates about the best way to understand economic fluctuations and the role of money to a consideration of the basic principles of social and economic organization, how order is created and sustained in society.

It also supplied an economic rationale from which to develop a searching critique of contemporary politics and policy. It was this critique on which Hayek was to embark during the Second World War and which led to the publication of his most famous book, The Road to Serfdom, in 1944. There was an element of accident about it. Because of his former Austrian nationality, Hayek was debarred from taking any active part in the war effort. The LSE moved to Cambridge, and most of Hayek’s colleagues entered government service. Normal intellectual life was severely curtailed during the war, and Hayek, in the congenial surroundings of Cambridge, devoted his energies to an analysis of the forces which in his view had undermined Western civilization and brought it to the brink of catastrophe.

The Road to Serfdom was an extremely unusual book for a professional economist to write, even in the 1940s. It contained very little economics, and ranged widely over history and politics. Hayek undoubtedly saw it as a temporary diversion from his strictly economic research programme, although, as already indicated, this new direction was clearly signalled by the fundamental turn in his thought represented by ‘Economics and Knowledge’. Like many academic authors whose books suddenly become bestsellers, Hayek was rather surprised and overwhelmed at the book’s reception. He wrote many years later that after a time it began to irritate him, because the attention he received as its author prevented him from resuming his career as a professional economist. But he never did resume that career. The new research programme which ‘Economics and Knowledge’ had opened up increasingly preoccupied him.
What the success of *The Road to Serfdom* also gave him was a new mission. Denied the opportunity to work as a civil servant in either Austria or England, Hayek still desired a public role. His new research programme allowed him to emerge as a public intellectual, a crusader for liberty, a patron of think-tanks, a thinker who ranged widely over fundamental questions concerning Western civilization, but one who also could intervene in policy debates and write letters to *The Times*.

The idea for this new public role seems to have followed inexorably from the success of *The Road to Serfdom*. The book occasioned great interest, particularly in America. Hayek had not visited the United States since his trip in 1923–4, but now he received many invitations from there both to lecture and to write. He found that many of his views were misunderstood and had been distorted, and persuaded himself that there was a greater need for a clear restatement of the fundamental principles of the liberal tradition than for detailed work on theoretical problems in the Austrian paradigm. Another factor in Hayek’s decision to abandon his economic research programme was that in the 1940s the Keynesian revolution in economic theory was in full flood. Hayek had strong methodological objections to the macro-economics of Keynesianism, which now for a time became the dominant orthodoxy within economics. The Austrian school became increasingly marginalized, and although Hayek could have hung on as others did, he increasingly risked being seen as prisoner of an approach that had become outmoded. Looking back from the 1990s, it is easy to forget that, for a time, Keynes was credited with having achieved a Copernican revolution in economics, moving the whole basis of analysis and policy into a new era. The dominant textbooks of the 1950s and 1960s, most notably Paul Samuelson’s *Economics*, proclaimed the new orthodoxy. Criticism, when it came, tended to accept many of the new methodological foundations that Keynes had established.

Hayek regarded the new economics as having serious flaws, not just as economic theory but also as political economy. Its great danger was that it failed to understand the true anti-rationalist foundations of a market order, and although most economists regarded themselves as liberals, Hayek argued that, in espousing rationalist models of the economy, they were assisting the currents of opinion that were steadily undermining these foundations and thereby threatening future prosperity.

At the age of forty-five, Hayek’s life changed course. He resolved to spend his energies in an ambitious attempt to restate the
principles of classical liberalism, as well as lend his support to a crusade for liberty. In order to win back ground lost to collectivism, liberals and individualists had to be prepared to find new ways to propagate their views, to win intellectual arguments, and to recapture the high ground of public debate. The series of catastrophes from 1914 to 1944 had seen the rise of totalitarian regimes and movements, the destruction of the liberal world order, and the collapse of faith in liberal principles and values. The defeat of Nazism, however, and the reconstruction of Western Europe and Japan under American leadership so as to contain the challenge of Soviet communism created a new confidence and momentum, of which Hayek and other liberals took full advantage.

Hayek never became a statesman like Keynes, and, although at times consulted by political leaders, never played an active part in helping to shape government policy from the inside. His efforts were devoted instead to trying to influence the climate of ideas within which politicians operated. The Mont Pèlerin Society, which continued to meet every year, the Institute of Economic Affairs, and the numerous other societies, political groups, and think-tanks with which Hayek became associated were the fruits of this activity.

**Hayek’s Project**

In evaluating Hayek’s intellectual contribution, there has been considerable debate over the extent to which his work reflects a unified, consistent theoretical approach. Some have argued that there were major changes, from his early writings, when he was influenced by Mises, to his writings after 1937, when he accepted many of Popper’s ideas. There is evidence too that in the 1950s he incorporated into his thinking Michael Polanyi’s concept of tacit knowledge. Despite such shifts of emphasis, however, several commentators on Hayek have argued that his fundamental epistemological and methodological position did not really change from the way in which he elaborated it in *The Sensory Order*, and that there is an underlying consistency in Hayek which infuses both his economic writings and his later social and political theory.

This fundamental theoretical consistency of his approach was masked by the shift in the focus of his writing and scholarship from economics to political theory. Changes of place – from Vienna to London to Chicago to Freiburg – played a part, but so too did Hayek’s desire to be more than just an economist. His intellectual
project came to involve much more than academic scholarship. Part of him wanted to play a public role, and when that proved impossible in a conventional way, the success of *The Road to Serfdom* gave him a different outlet as an ideological entrepreneur. Such a role carried dangers, however. It obscured what in the end was most important to him – his scientific contribution to the understanding of society.

In assessing and summarizing Hayek’s intellectual project, his life divides into four principal periods. The first period, in Vienna, from 1899 to 1931, gave Hayek his basic intellectual formation in Austrian economics, in the philosophy of science, and in the theory of mind. Austrian economics made him a methodological individualist and a subjectivist; in his ethical philosophy he became primarily a consequentialist; while his study of psychology had a profound influence on his understanding of knowledge. These were foundations which Hayek later modified but never really abandoned.

The second period, in England, between 1931 and 1949, established Hayek as an academic professional economist, and also brought him into close contact with the intellectual and political traditions of English liberalism. He devised a research programme on the micro-foundations of capital and business cycles, which, although it had a distinct Austrian perspective in seeking to develop some of the concepts of Böhm-Bawerk’s capital theory, was also orthodox in framing the research as a problem within general equilibrium theory. Hayek’s breakthrough in 1937 led him to reject the concept of general equilibrium as the right framework for economic analysis, and instead to treat equilibrium and order as the result of the co-ordination of the plans of individuals which depended crucially on the information available to them. Hayek abandoned the assumption that the correct starting-point for analysis was the concept of a general equilibrium, arguing instead that it was necessary to begin with the plans of individuals and the distribution of knowledge in society. The achievement of order and equilibrium were the end result, not the starting-point, for the analysis. The correct procedure was to see by what institutional mechanisms co-ordination was achieved and maintained. When this approach no longer appeared central to the concerns of economics, following the shift to macro-economics which Keynes’s *General Theory* encouraged, Hayek became more interested in the implications of an anti-rationalist critique of constructivism in social science and in rethinking the arguments for a liberal society.
The most important publication of his English period was *The Road to Serfdom*, which was born out of his respect for the English tradition and his fear that it was being lost because the English themselves no longer properly understood it.

In the third period of his career, between 1949 and 1969, first in Chicago, then at Freiburg, Hayek’s reputation as an economist dwindled; but his reputation as a social and political philosopher was established with the publication in 1960 of *The Constitution of Liberty*, which even its critics recognized as a major accomplishment, and quite different in tone and scale from *The Road to Serfdom*. This was also the period in which he became increasingly active as a crusader for liberty, an organizer and patron of the movement that developed into the New Right of the 1970s and 1980s.

In the fourth and final phase of his career, between 1969 and 1992, Hayek enjoyed a return to public prominence, mainly as a result of the ascendancy of the New Right and retrospective assessments of the importance of his contributions. He continued to write and publish right up to the end of his life, his last major work being *The Fatal Conceit*, published in 1988. This period also saw the completion of the three-volume study *Law, Legislation, and Liberty*, which continued the themes and the argument of *The Constitution of Liberty*.

By the time of his death, Hayek had achieved most of the objectives he had set himself. He had produced the most comprehensive twentieth-century restatement of the principles of anti-rationalist liberalism. He had participated in the revival of anti-rationalist liberalism both as a doctrine and as a guide to public policy, and had witnessed the considerable triumphs it achieved during the 1970s and 1980s. Right at the end of his life came the opening of the Berlin Wall and the fall of communism. By the time he died, aged ninety-two, he could reasonably say that he had outlived all these major challenges to the liberal order, and had seen the tide swing back in liberalism’s favour.

**The Critique of Socialism**

Hayek’s intellectual project needs to be assessed both as an ideological critique of socialism and as a contribution to understanding the nature of modern society. The two are closely intertwined, but it is the argument of this book that they are also separable. Hayek always viewed socialism in its many guises as the greatest threat
to the survival of modern civilization. Underlying this critique is the conviction that ideas matter. A vigorous defence and restatement of liberal principles was necessary to prevent the world becoming dominated by doctrines whose effects were harmful.

Hayek therefore came to see himself as engaged in a profound battle with socialism. When he was young, he was drawn to socialism, particularly towards the idea of planning. But he soon moved away. Hayek defined socialism as direction of economic activity in accordance with some ideal of social justice. During the 'socialist century' the favoured technique had been nationalization of the means of production, distribution, and exchange. In the period since 1948 nationalization and central planning had lost support, and instead, the spending programmes and regulatory regimes of the welfare state had become the characteristic features which defined socialism.

Hayek's ideological vision of the identity and meaning of Western civilization is expressed through his critique of socialism. His own deeper insights into the nature of modernity and the organization of society are arrived at through this critique. In the following chapters the essential features of this critique are examined, not chronologically, but thematically.

Hayek's critique of socialism makes three key claims:

Socialism destroys the basis of morals, personal freedom, and responsibility.
Socialism impedes the production of wealth and may cause impoverishment.
Socialism (sooner or later) leads to totalitarian government.  

These claims look like empirical hypotheses about the consequences of implementing socialist policies. Hayek notes that, in fact, the experience of socialist societies does provide evidence that these are the consequences of socialism. Whenever there had been serious attempts to create socialist societies, they had resulted in less, not more, social justice, less not more production, and a new despotism, once limits on state power had been weakened. But his argument does not depend on empirical confirmation. He makes his case against socialism primarily on a priori theoretical grounds. The fact that social-democratic regimes in Western Europe have not in practice paved the way for totalitarianism did not lead Hayek to moderate his view that socialism always leads to totalitarian government. Socialism always possessed that potential, because it
was fundamentally antagonistic to the only principles on which modern civilization could be based.

Chapters 2, 3, and 4 explore the critique of socialism which Hayek advances in relation to morals, markets, and politics, noting the distinctive epistemological and methodological position from which it is made and the particular understanding of modernity and politics which it entails. These chapters discuss the core concepts of the Hayekian system—spontaneous orders, justice, coercion, property, liberty, knowledge, evolution, rationalism and anti-rationalism, economic calculation, and the totalitarian tendencies of modern politics. Chapter 5 then examines Hayek’s own ideological position in relation to other strands in contemporary liberalism and conservatism. Is Hayek best described as a liberal, a libertarian, or a conservative? Chapters 6 and 7 examine some of Hayek’s policy proposals, particularly his constitutional ideas, his analysis of inflation, and his criticisms of the failures of the welfare state. Chapter 8 summarizes the account of modernity and the role of reason which emerges from these different strands of Hayek’s ideological discourse, and discusses why Hayek matters, as well as the insights and limitations of his thought.

The grand narrative he offers may not ultimately be sustainable; the tensions and silences in his writings are often more interesting than his substantive claims. What is rewarding about reading Hayek is that he challenges many of the intellectual assumptions on which the ideological discourses and the social sciences of the twentieth century have been based, and rehabilitates an alternative way of conceiving social order. In doing so, he forces all of us to reflect upon our own assumptions and methods, and provides insights which are not dependent on his own, ultimately rather narrow, ideological vision, insights which are available for a range of purposes beyond those he could ever have imagined or desired.
Chapter 1  Introduction: Rethinking Hayek

2  Ibid., p. 89.
4  J. Birner and R. van Zijp (eds), *Hayek, Coordination and Evolution* (London: Routledge, 1994).
8  Ibid., p. 249.


22 Mises remained an important influence throughout Hayek's life. Many of Hayek's ideas were derived from Mises. But there were also important differences between them, particularly in their methodological approach to economic analysis and the concept of knowledge. Mises was a more rigid, less original thinker than Hayek.

23 The term 'methodological individualism' was coined by Joseph Schumpeter. For a searching critique of its limitations in economic explanation see G. Hodgson, *Economics and Institutions* (Cambridge: Polity, 1988).


26 See McCormick, *Hayek and the Keynesian Avalanche*, and Steele, *Economics of Friedrich Hayek*. McCormick points out that the distinction between Mengerian and Walrasian analysis was not appreciated by economists in the 1930s, who imagined they shared common assumptions. As a result of Hayek's work, the differences between the two approaches, particularly in their assumptions about knowledge and


29 Hayek, *Hayek on Hayek*, p. 80.


31 An excellent example of this is the radio discussion between Hayek, Maynard Krueger, and Charles Merriam on 22 April 1945, reproduced in *Hayek on Hayek*, pp. 108–23.

32 See especially Gray, *Hayek on Liberty*.

33 This is not to deny the major tensions in his thought. As noted earlier, both Chandran Kukathas and Roland Kley have explored these at length, although they have differing conceptions of Hayek’s project. Kukathas concentrates on Hayek’s attempt to combine Kantian and Humean ethical claims in a coherent moral theory of liberalism, while Kley argues that Hayek’s project is defined principally by an instrumentalist, rather than a moral, justification of liberalism which links a traditionalist argument derived from a theory of cultural evolution with a proceduralist argument derived from a theory of spontaneous order. Both studies conclude that Hayek’s ambitious project fails. See Kukathas, *Hayek and Modern Liberalism*, and Kley, *Hayek’s Social and Political Thought*.


**Chapter 2 Morals**

1 Roland Kley points out that Hayek’s argument is instrumentalist, because it assumes that liberalism and socialism share the same values and the same ultimate ends but differ only on the means to achieve them. The superiority of liberalism over socialism is demonstrated primarily through the relative success of liberal and socialist institutions in producing outcomes which correspond to those ends. See R. Kley, *Hayek’s Social and Political Thought* (Oxford: Clarendon Press, 1994).


3 Even Karl Popper, who became a close friend and associate of Hayek, confessed in his autobiography that for many years he was a socialist, and that ‘if there could be such a thing as socialism combined with personal liberty I would be a socialist still. For nothing could be better than living a modest, simple, and free life in an egalitarian society. It took some time before I realised this as no more than a beautiful dream’ (*Unended Quest* (London: Routledge, 1992), p. 36).


10 Ibid.

11 Hodgson has provided one of the most searching accounts of Hayek’s theory of evolution, in particular his oscillation between ontogenetic theories of evolution based on eighteenth-century notions of evolution and philogenetic theories using a concept of natural selection. He demonstrates that the key weakness of Hayek’s evolutionary theory is that it fails to identify a mechanism of natural selection to explain the outcomes of the evolutionary process. See G. Hodgson, *Economics and Evolution* (Cambridge: Polity, 1993), chs. 11 and 12.

12 Hayek comes close here to endorsing Spencer’s arguments, although in other respects, as Hodgson notes, his position is very different from Spencer’s: e.g., Hayek’s theory of evolution is a theory of group, not individual, selection, and does not posit immutable laws of development. See Hodgson, *Economics and Evolution*, and E. F. Paul, ‘Liberalism, Unintended Orders, and Evolutionism’, *Political Studies*, 36/2 (1988), 251–72.

13 This may seem paradoxical because of Hayek’s depiction of the evolution of the rules of conduct which constitute the Great Society as a natural process, not planned or intended by anyone. But the end result of this natural evolution is a situation which is unnatural, because human societies have moved so far from their origins. The Great Society is viable only if human beings learn to behave in ways which are contrary to their deepest emotional and instinctual promptings.


17 Ibid.


21 Hayek’s failure to apply his insights about the necessarily limited and fragmented character of knowledge to centralized, hierarchical organizations is explored by Hilary Wainwright in *Arguments for a New Left* (Oxford: Blackwell, 1994).


25 See the discussion in Kley, *Hayek’s Social and Political Thought*, pp. 122ff. He lists five arguments that Hayek uses for spontaneous orders, but argues that there are many circumstances, such as the response to epidemics, public goods, and neighbourhood effects, where reliance on spontaneous orders will not provide the best solutions. Another problem which Kley highlights is that Hayek’s concept of order is often vague. When does a particular network of interaction constitute an order rather than a disorder? At times Hayek too easily assumes that spontaneity will produce harmonious co-ordination.

26 Hayek, *Constitution of Liberty*, p. 61.


30 Ibid., p. 20.


33 Ibid., p. 80.


36 Ibid., pp. 151–2.


38 Ibid., p. 33.

39 Ibid., p. 67.

40 Ibid., p. 11.

41 Ibid., p. 99.

42 Ibid., p. 30.


46 As Kley notes, however, there are other, non-market institutions which Hayek acknowledges to be necessary for a successful market order, which include the state, the family, religion, and a particular set of moral attitudes and dispositions. See Kley, *Hayek’s Social and Political Thought*. 

48 One way in which the market is not a game or a lottery is that the winnings tend to be cumulative. Individuals do become equal again, as at the beginning of a new round of a game. See Kley, *Hayek's Social and Political Thought*, ch. 4. A market order that periodically and randomly redistributed life chances would resemble the lottery described by Borges in 'The Lottery in Babylon', in *Labyrinths* (London: Penguin, 1970).


50 Ibid., p. 74.


Chapter 3 Markets


7 See Hodgson, *Economics and Institutions*. The problem with methodological individualism is that it gives no good reason why explanation should stop at the individual. The individual is eminently deconstructible into the conflicting pressures which shape attitudes and preferences and structure experiences. Hodgson notes Nozick's observation that an injunction to methodological institutionalism is equally as plausible as an injunction to methodological individualism, and would be similarly flawed.

8 This theme is taken up in the last chapter.

9 Hayek (ed.), *Collectivist Economic Planning*, p. 10.
10 Ibid., p. 17.
12 Ibid., p. 22. Mises describes his book as a scientific enquiry, not a political polemic. What a polemic from him would be like certainly stretches the imagination.
13 Mises, e.g., wrote: 'Every attempt to realise a socialist, interventionist, agrarian socialist, or syndicalist society must necessarily prove unsuccessful. Neurotics who could not bear this truth have called economics a dismal science. But economics and sociology are no more dismal because they show us the world as it really is than the other sciences are – mechanics, for instance, because it teaches the impracticability of perpetual motion, or biology because it teaches us the mortality of all living things' (The Free and Prosperous Commonwealth (New York: Van Nostrand, 1962), p. 90. This was first published in 1927).
17 Another early sign of the breadth of his concerns was his Inaugural Lecture at the LSE, 'The Trend of Economic Thinking', later published in Economica, 13/2 (1933), 121–37. See J. Tomlinson, Hayek and the Market (London: Pluto, 1990), p. 7: 'It would not be an exaggeration to say that the agenda of issues Hayek was to spend most of the rest of his life working on was raised in this 1933 article.'
19 Ibid., p. 105.
20 Ibid., p. 24.
21 Ibid., p. 17.
22 Mises, Socialism, p. 120.
23 Ibid., p. 138.
24 Ibid., p. 130.


32 A point emphasized by Lavoie in *Rivalry and Central Planning*.

33 Blackburn, 'Fin-de-Siecle'.

34 Hayek quotes Trotsky's comment that 'economic accounting is unthinknable without market relations', in 'The Use of Knowledge in Society', in *Individualism and Economic Order*, p. 89.


Chapter 4  Politics


2 Ibid., p. 5.

3 Ibid., p. 3.


5 See R. Cockett, *Thinking the Unthinkable* (London: Fontana, 1995). Clement Attlee was quick to link the broadcast with the sinister influence of 'Professor von Hayek', cynically drawing attention to his nationality and ignoring the fact that Hayek had been living in Britain for fourteen years and had taken British citizenship.

6 Hayek, *Road to Serfdom*, p. 9.

7 Ibid., p. 10.

8 Ibid., p. 9.

9 Ibid.

10 Ibid., p. 10.

11 Ibid., p. 12.

12 Ibid., p. 13.

13 Ibid.
14 Ibid., p. 15.
15 Ibid.
17 Hayek, *Road to Serfdom*, p. 16.
18 Ibid., p. 31.
20 Hayek, *Road to Serfdom*, p. 37.
21 Ibid., p. 42.
22 Ibid., p. 94. Although Hayek hardly ever refers to Herbert Spencer, there is a clear echo of his categories in the use of the terms 'commercial' and 'military' society. On similarities between the evolutionary ideas of Spencer, Hayek, and also Sumner, see E. F. Paul, 'Liberalism, Unintended Orders and Evolutionism', *Political Studies*, 36/2 (1988), 251–72.
23 Hayek, *Road to Serfdom*, p. 100.
25 Ibid., p. 127.
26 Ibid., p. 131.
27 Ibid., p. 139. Carl Schmitt was one of the leading theoreticians of the Nazi regime.
28 This is an argument which has been revived in the 1990s. See A. Gamble and A. Payne (eds), *Regionalism and World Order* (London: Macmillan, 1996).
29 Hayek, *Road to Serfdom*, p. 148.
30 Ibid., p. 149.
37 Ibid., pp. 107–8.
40 Ibid., p. 106.
41 Ibid., p. 109.
42 See ch. 6.
43 Hayek, *Constitution of Liberty*, p. 112.
Chapter 5  Conservatism

6 Ibid., p. 398.
7 Ibid.
8 Ibid., p. 400.
9 Ibid.
10 Ibid., p. 401.
11 Ibid.
12 Ibid., p. 405.
13 Ibid., p. 410.
14 Ibid.
15 Ibid., p. 411.
17 Hayek asserts that the operations of the invisible hand are benign, but he does not explain why this should be so or the circumstances in which it might not be so. Nor does he consider the possibility that the workings of the invisible hand might create disorder rather than order.
21 Ibid., p. 2.
10 Ibid.
23 Rothbard’s main opposition is to any form of state action. But he does not favour unbridled individualism. In recent times he has given strong backing to the fundamentalist Christian Right, arguing that on moral questions there is a strong agreement between Christians and libertarians. See *Conservative Chronicle*, 17 Mar. 1993. I am indebted to Martin Durham for pointing out this reference to me.
27 Ibid., p. 633.
28 Ibid., p. 637.
31 Particularly in his evolutionary writings, Hayek too stresses the institutional foundations inherited from the past on which a capitalist order relies, which are in danger of being eroded by modern rationalism.
36 Disraeli, speech at Crystal Palace, 24 June 1872.
37 Schumpeter, *Capitalism, Socialism, and Democracy*, p. 229.
40 Ibid.
41 Ibid., p. 15.
42 Ibid., pp. 15–16.
43 O’Sullivan, ‘Conservatism, the New Right’.
Chapter 6 A Constitution for Liberty

1 See R. Cockett, Thinking the Unthinkable (London: Fontana, 1995), pp. 9-12.
2 Hayek's success with The Road to Serfdom was rivalled only by Karl Popper's The Open Society and its Enemies (London: Routledge, 1945), which Hayek helped to get published in 1945. These two books became the classic texts in the liberal revival after 1945. Mises' book, which received much less attention but which had a similar theme to The Road to Serfdom, was entitled Omnipotent Government (New Rochelle, N.Y.: Arlington House, 1964). It was also published in 1944.
4 Ibid.
5 Ibid., pp. 206-7.
6 Ibid., p. 208.
7 Ibid., p. 209.
8 Ibid., p. 211.
9 Ibid., p. 216.
10 Ibid., p. 212.
11 Ibid., p. 214.
12 Ibid., p. 238.
13 The feeling of isolation of so many of these intellectuals and their resulting pessimism is well caught by these remarks of Mises: 'Occasionally I entertained the hope that my writings would bear practical fruit and show the way for policy. Constantly I have been looking for evidence of a change in ideology. But I have never allowed myself to be deceived' (Notes and Recollections (South Holland, Ill.: Libertarian Press, 1978), p. 115).
14 Hayek, Fortunes of Liberalism, p. 238.
15 Ibid., p. 243.
16 Ibid., p. 244.
17 Ibid., p. 259.
19 In Hayek's Social and Political Thought (Oxford: Clarendon Press, 1994), Kley lists six legitimate roles for the state which can be found in Hayek's writings: the enforcement of the rules of just conduct, the adaptation of existing rules to social and technological changes,
enabling the operation of market processes, restraint of the destructive features of markets, the provision of public goods, and countercyclical intervention. This is quite a list.


See the discussion in ch. 4.


Ibid., p. 167.


The hollowing out of the British constitution is explored in ibid. One of the ironies of the Thatcher Government in Britain was that its programme of radical institutional reform was greatly facilitated by the uninhibited use of the centralized powers of the British state. The doctrine of unlimited parliamentary sovereignty enabled the Government to disregard opposition and impose its preferred policies. The authoritarianism which Hayek had earlier discerned in British constitutional arrangements was used to try to re-establish a free economy.


Ibid., p. 197.

Ibid., p. 240.


Hayek, Constitution of Liberty, p. 207.

Ibid., p. 105. This argument would have applied to apartheid in South Africa.

Hayek, Law, Legislation, and Liberty, ch. 17. One of the most searching critiques of Hayek’s constitutional doctrines, including the rule of law, and the difficulties of applying them to the contemporary capitalist societies is provided by R. Bellamy, ‘“Dethroning Politics”':
Chapter 7  The Economic Consequences of Keynes


7 Ibid., p. 283.

8 Ibid., p. 289.


11 Ibid., p. 287.

12 Ibid., p. 230.


14 Ibid., p. 219.


17 Ibid., p. 306.

18 Ibid., p. 297.

19 Ibid., p. 295.

20 Ibid.

22 Hayek never seems to have suspected or known about Keynes’s bisexuality until the publication of Michael Holroyd’s biography of Lytton Strachey in 1967. These revelations about the Bloomsbury group, Hayek concluded, were ‘probably a sufficient explanation of their revolt against ruling morals’ (New Studies, p. 16).


26 Quoted by Skidelsky in John Maynard Keynes, p. 62.


28 Ibid., p. 387.


36 Strachey, Nature of Capitalist Crisis, p. 113.

37 Ibid., p. 134.


39 Keynes, General Theory, p. 322.

40 Hayek, Hayek on Hayek, p. 143.

"Corrigible" Society'; in Birner and van Zijp (eds), Hayek, Coordination, and Evolution.

42 Anthony Fisher was an ex-RAF pilot who read The Road to Serfdom, and contacted Hayek to ask what he could do. Hayek suggested founding an institute. Fisher recruited Harris and Seldon to organize the new institute. Subsequently the success of Fisher’s business – Buxted Chickens – helped keep it afloat financially.


45 See Hayek, Denationalisation of Money, for an account of his differences with the monetarists.


50 Ibid., p. 274.

51 Ibid., p. 275.

52 Ibid., p. 284.

53 Ibid., p. 276.


56 Hayek, Studies, p. 298.

57 Hayek, Constitution of Liberty, p. 92.

58 Ibid., p. 303.

59 Even with the principle of proportional taxation, the rich still pay more in absolute terms. Hayek was not prepared to advocate the more radical principle of a flat rate tax, levied on individuals. The Thatcher Government introduced such a tax, the community charge, to replace rates, the local property tax. It proved a costly fiasco.

60 Hayek, Constitution of Liberty, p. 341.

Chapter 8 The Iron Cage of Liberty

Notes to pages 179–192


3 Modern ideas about death are explored by Z. Bauman, Mortality, Immortality, and Other Life Strategies (Cambridge: Polity, 1992).


10 This tension between his conception of society as a spontaneous order and his conception of it as the product of cultural evolution is dissected by R. Kley, Hayek's Social and Political Thought (Oxford: Clarendon Press, 1994).


12 As he put it in Individualism and Economic Order (London: Routledge, 1948), p. 22: ‘The state, the embodiment of deliberately organised and consciously directed power, ought to be only a small part of the much richer organism which we call society ... the former ought to provide merely a framework within which free (and therefore not “consciously directed”) collaboration of men has the maximum of scope.’

13 A minor irony, given the associations which the term ‘federalism’ had come to have in the debate on European Union in the Conservative party by the end of the 1980s, was that Hayek always strongly supported federalism, and in the 1930s had seen a federal structure in Europe as the best way of reducing nationalist conflicts between the European powers. See ‘The Economic Conditions of Inter-State Federation’, New Commonwealth Quarterly, 5/2 (1939), 131–49.


17 See Hilary Wainwright’s discussion of this aspect of Hayek’s thought in Arguments for a New Left (Oxford: Blackwell, 1994), ch. 2. Blackburn
in 'Fin-de-Siècle', also notes Hayek's argument that capitalism permits much broader participation in decision-making than any other social system. The strength of Hayek's critique of socialism for socialists, according to Blackburn, is that it questions whether members of society should plan for themselves or whether a benevolent government should impose plans on them.


19 A number of strands in contemporary social science are converging to form a new political economy. See A. Gamble, 'The New Political Economy', Political Studies, 43/3 (1995).

20 M. Desai, 'Equilibrium, Expectations, and Knowledge', in Birner and van Zijp (eds), Hayek, Coordination and Evolution, pp. 25–50.

21 The assumption of fixed preferences is one of the greatest obstacles to the development of an adequate account of the relationship between structure and agency. See M. Harris and G. Kelly, 'Rethinking Preferences in Public Choice', in J. Lovenduski and J. Stanyer (eds), Contemporary Political Studies 1995, Proceedings of the PSA Annual Conference, pp. 676–84.

22 One example of the possibilities is G. Kelly, A. Gamble, M. Dietrich, and R. Germain, 'Regional Finance and Corporate Governance: Do We Need Regional Development Banks?', New Economy, 2/4 (1995), which uses the concepts of co-ordination failures and corporate governance to explore the potential for changing the relationship between banks and small and medium-sized enterprises.


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